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LEADERSHIP IN BOUTIQUE ASSET MANAGEMENT

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For Maddy and Rafi

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List of Abbreviations

A Boutique – A Boutique asset management business

AUM – Assets under management

CFA – Chartered Financial Analyst

CIO – Chief Investment Officer

FCA – Financial Conduct Authority

HR – Human Resources

IIMI – Independent Investment Management Initiative

IR – Investor Relations

PM – Portfolio Manager

PSF – Professional Services Firm

Executive Summary

Objectives

This research explores the importance of leadership in driving job satisfaction, staff retention and staff output within the UK's boutique asset management sector. It also analyses how leadership manifests itself in practice, how different stakeholders view leadership, and how this influences their approach to leadership and its development. Finally, this report consolidates these findings to establish 11 practical steps which boutiques can take to enhance leadership capabilities within their organisations.

Purpose

Understanding how leadership is approached across boutiques may provide insight into the reasons for which boutiques generally perform better than their non-boutique peers, why certain boutiques succeed and some fail amongst their boutique peer-group and how boutiques can enhance their leadership capabilities to increase their results and longevity. It is understood that no such academic research has been conducted on the UK's boutique asset management prior to the publication of this research.

Methodology

This research was conducted by reviewing the existing literature on leadership, with a particular focus on professional services firms, collecting primary data via a survey of 217 individuals across 27 boutiques and carrying out interviews with 14 boutique asset management leaders and 7 leadership consultants who specialise in asset management.

Conclusions

The findings of the research suggests that leadership is an important factor in driving job satisfaction, employee output, staff retention and good succession within boutique asset management businesses. Strong communication, feedback, and decisiveness are identified as three of the most important leadership characteristics.

The survey results suggest that around half of those in a management position in the UK's boutique asset management sector are there by default rather than design. Furthermore, those in a management position by default are over three times more likely not to enjoy management, and over four times more likely to believe they are not particularly capable at managing. Although there are benefits in selecting experienced members of staff for leadership positions, selecting leaders by default is not always appropriate for the individual nor for the business.

The research findings also suggest that although many boutiques exhibit strong leadership, this is not always consistent across and within firms, with 57% of CEOs and 32% of staff believing that management practices could be improved in their organisations. Finally, it is shown that leadership development programs, particularly one-on-one training/coaching, and professional education, are deemed to be beneficial in enhancing leadership capabilities.

Recommendations

Given its role in driving job satisfaction and the development of staff, it is proposed that leadership is in fact a fundamental driver of investment returns, asset growth and effective succession in boutiques. Furthermore, it is argued that the active selection of leaders and

their approach to leadership development can impact the quality of leadership within boutiques. Finally, although the development of leaders can benefit firms of all sizes, it is proposed that leadership development may be particularly important in smaller, less-institutionalised boutiques with fewer staff and more acute succession challenges. The research concludes by suggesting that the following principles and practices can contribute to better leadership within boutiques:

1. Establish a governance structure to support leadership
2. Develop leadership capabilities early
3. Promote leaders from within
4. Disassociate leadership from career progression, remuneration and control
5. Make feedback commonplace
6. Select leaders from at least two candidates and assess suitability objectively
7. Establish leadership objectives and align incentives
8. Set leaders up for success
9. Re-evaluate leadership periodically
10. Identify and address weaknesses in leadership promptly
11. Seek external advice when needed

Introduction

Over the years, a significant body of research has been conducted on leadership and management (Yukl, 1989; Davis, 1958; Drucker, 1999; Drucker, 2007; Koontz and O'Donnell, 1972; Fayol, 1949). A growing area of research focuses on leadership and management within Professional Services Firms (PSFs) (Empson, 2001; Empson et al., 2013; Empson, 2017; Greenwood et al. 1990; Goodall, 2012; McGivern et al., 2015) which Empson (2017, pp. 2) defines as having 'relatively little in the way of tangible assets', and whose value 'resides primarily in individual professionals, or rather, within the technical knowledge, client relationships, and reputation which they possess'. Empson goes on to say that 'there is a desperate need for good leadership in professional organisations' (pp. 7), and 'most leadership research is on conventional hierarchical organisations and is, therefore, of limited relevance to professionals' (pp. 3).

The focus of much of the existing research on PSFs is on traditional industries such as legal, accounting, banking, and consultancy. Little research has been conducted on leadership within the asset management industry, and even less so on the segment of the industry classified as '**boutique asset management**'.

Leadership vs. Management

Although the term 'leadership' is often associated with the strategy-setters controlling organisations, and 'management' is often associated with those responsible for departments or teams, the terms '**leadership**' and '**management**' are used interchangeably in this paper.

'Management is the function of executive leadership anywhere.'

– **Ralph Davis (1958), 'A Philosophy of Management'**

The Asset Management Business Model

The principal role of an asset management business is to invest capital on behalf of its clients – 'asset owners' – with the aim of growing this capital over time, thereby delivering value to these clients. These businesses generate revenue by charging a fixed fee on the assets under their management (AUM). An incentive fee[1] may also be charged as a proportion of positive performance generated for clients. Asset management businesses can increase revenue by way of both making successful investments, which will grow the existing AUM through capital appreciation (and generate incentive fees if applicable), and by attracting additional assets from existing and new clients. In both instances, the base on which the fixed management fee is paid grows.

The task of investing rests with an **Investment team**, typically including portfolio managers, who make the investment decisions, and analysts, who assess investment opportunities and make recommendations to the portfolio managers. The raising of new assets and retention of existing clients typically reside with a **Marketing team**[2]. There are several other core functions required to facilitate these activities, such as **Compliance** and **Operations**; however, investing and fund-raising are the two primary sources of revenue generation.

[1] Often called a 'performance fee'

[2] Sales, Distribution, Client Servicing and Business Development are other common terms related to this function.

This model is as applicable to a 5-person asset management business as it is to a 500-person one. Following launch and starting from a low AUM base, a boutique asset management business may be run according to a 'marketing-led model', in which revenue growth is primarily driven by attracting additional clients. As it grows, it may shift to an 'investment-led model', in which revenue growth is primarily driven by investment performance. However, over time both models are important to succeed, and many businesses will target each concurrently.

The UK's Boutique Asset Management Sector

According to the UK Investment Association's Annual UK Investment Management Survey, published in September 2020[3], the UK is the 'the second largest investment management centre in the world after the US' (pp. 9), and represents a 37% market share in Europe, which is greater than the next three European markets combined. The industry includes over 1,300 businesses, generates revenues of £23.7bn annually, and directly employs around 38,500 people, with a further 73,000[4] being employed indirectly.

Of these 1,300 organisations, 93.5% employ fewer than 100 people[5] (see Figure 1), and c. 60% manage less than £15bn in assets. The focus of this research is on the boutique asset

[3] Investment Association (2020), Investment Management in the UK 2019-2020: The Investment Association Annual Survey, September 2020

[4] Olivieri, B. (2021), UK Industry (UK SIC) Report K66.300, Fund Management Activities in the UK, IBISWorld

[5] Olivieri, B. (2021), UK Industry (UK SIC) Report K66.300, Fund Management Activities in the UK, IBISWorld

management sector, which broadly falls into this category. Although there is no formal definition of a boutique asset management business, boutiques generally demonstrate one or more of the following characteristics[6]:

- Manage less than £10bn in AUM
- Employ fewer than 100 staff
- Offer some degree of specialisation in terms of investment approach
- Independently owned

Figure 1: UK Investment Management Companies by Employment Size (2017)

Staff	Share of Total (%)
0-4	61.1
5-9	16.9
10-19	9.7
20-49	5.8
50-99	3.1
100-249	1.9
250+	1.5

Source: IBISWorld[7] and ONS

Why Leadership in Boutique Asset Management is Interesting

When investors assess the suitability of an asset management business, their due diligence typically assesses the firm's 'People', 'Philosophy', 'Process' and 'Performance', often

[6] These characteristics have been adapted from the definition of a boutiques provided in the Investment Association's Annual 2020 Survey (pp. 101)

[7] Olivieri, B. (2021), UK Industry (UK SIC) Report K66.300, Fund Management Activities in the UK, IBISWorld

referred to as the '4 Ps of Manager Selection'[8]. Performance is often considered an outcome of the three other factors. This framework places portfolio management at the heart of the value proposition. 'Philosophy', 'Process' and 'Performance' are all core investment concepts, and the assessment of 'People' generally relates to the portfolio managers and analysts driving investment decisions.

The leadership of an asset management business is typically not assessed directly. An article on the CFA Institute's[9] website from 2016 entitled '*Current Thinking in Investment Manager Selection*'[10] directs readers to a collection of 14 articles, podcasts and presentations produced by a variety of experienced investment professionals 'to help readers navigate and stay current in the latest in manager selection theory and practice' (see Appendix A). ***People***, ***process*****,** and ***performance*** come up in almost every instance, although neither ***leadership*** nor (people) ***management*** are referred to even once.

One reason for this could be that the role of leadership is considered less important than the other factors. An alternative explanation could be that the ***people*** whom a business attracts

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8 https://wealthmanagementcanada.com/blog/evaluating-a-wealth-manager-4ps-of-manager-research/ [Accessed 4th September 2021]

9 'The CFA Institute is an international organization that provides investment professionals with education, a code of ethics to follow, and several certification programs. The CFA Institute's primary mandate is to specify and maintain a high standard for the investment industry'. Available from: https://www.investopedia.com/terms/c/cfainstitute. [Accessed 31st August 2021]

10 Available at: https://blogs.cfainstitute.org/investor/2016/02/11/current-thinking-in-investment-manager-selection/. [Accessed 4th September 2021]

and the investment ***performance*** which it generates are, in fact the product of its leadership and therefore ***leadership*** is assessed indirectly in this way. Whether it is deemed to be less important or a key driver of results, understanding the role of leadership in boutique asset management, what it looks like and how it might be improved, could provide valuable insight for asset managers and their asset-owner clients alike.

The UK's boutique asset management sector is a vibrant one, but discrete and discerning. According to FCA data, on average 76 new investment management firms were authorised in the UK each year between 2001 and 2020[11]. Boutiques exemplify the entrepreneurial and financial expertise that has positioned the UK at the centre of Financial Services globally. They are generally established by small groups of entrepreneurial investment experts driven by a desire to build highly specialised organisations which are unbureaucratic, agile, and in which their investment expertise and client relationships can determine the success of the business.

In assessing the European boutique asset management industry, Clare (2020, pp. 19) found that European boutique asset managers 'tend to outperform those managed by Europe's largest fund management groups'. Similar research was conducted by AMG (2015) regarding boutiques in the US, and concluded that US boutiques 'have outperformed both non-boutique peers and indices over the last 20 years' (pp. 1) citing the following explanations:

- 'Principals have significant direct equity ownership, ensuring alignment of interests with clients

[11] Data provided directly by the FCA

- Presence of a multi-generational management team, fully engaged across the business
- Entrepreneurial culture with partnership orientation, which attract talented investors
- Investment-centric organisational alignment, including careful management of capacity
- Principals are committed to building an enduring franchise, embedding an appropriately long-term orientation' (pp. 1)

Some of these characteristics, which can impact approaches to leadership, are explored below.

Ownership

As is true of most start-ups, ownership and leadership of boutiques are often highly concentrated on the founders. These are generally the investment experts on whom the revenue generation of the business depends. It is often leadership issues at their prior firms, including a lack of influence, control, alignment, recognition, support, career progression and organisational success, that motivate founders to set up their own businesses. These negative experiences can positively and negatively impact the way in which leadership is conducted in the newly launched entities. Furthermore, offering specialisation, typically through a limited (often single investment strategy) product range, boutiques are generally overtly exposed to 'key-person risk', relying on one or two key individuals – generally the founders – to retain clients and thereby drive the results of the business.

Business Strategy

Given the scalability and high operational leverage of asset management businesses – broadly speaking, boutiques can grow their profits from £1m to £100m without needing to increase their headcount – many boutiques stay small by design. Of these, some become 'lifestyle' businesses and cease to exist when the founders retire, whilst others establish succession, the aim being to become 'multi-generational' businesses. Other boutiques choose to grow into larger, more complex multi-product businesses, mitigating their key-person risk and revenue streams, which presents a different set of leadership challenges altogether.

Culture

The culture of boutiques introduces a third dynamic. By their nature, boutiques tend to be entrepreneurial organisations of talented, self-motivated individuals who are results-focused and competitive. Although many boutiques are structured as partnerships and require a certain level of collaboration to function, investing typically attracts 'left-brained'[12], analytical and introverted[13] characters. Given the resolve required to make investment decisions, and with significant rewards often being attributable to so few, the investment industry is also a

[12] There is even an Illinois-based investment firm called 'Left Brain Investment Research: https://leftbrainir.com/

[13] According to the four Myers-Brigg personality types: **'Driver** - Fact-Based Extrovert, **Analytical** - Fact-Based Introvert, **Amiable** - Relationship Introvert, **Expressive** - Relationship Extrovert.' Available at: https://blog.bretthard.in/the-four-different-personality-types-9366bfefde16 [Accessed 26th September 2021]

breeding ground for egoists and 'prima donnas' such as are commonplace in other PSFs (Empson, 2017).

All these factors influence the ways in which boutiques approach leadership, and, although boutiques have similarities – typically representing small groups of expert entrepreneurs – the approach to leadership and the results of these businesses can vary significantly. Some fail quickly and others reach meteoric hights. Understanding how leadership is approached across boutiques may provide insight into the reasons for which boutiques generally perform better than their non-boutique peers, why certain boutiques may succeed or fail amongst their boutique peer-group and how boutiques can enhance their leadership capabilities to increase their results and longevity. It is understood that no such academic research has previously been conducted on the UK's boutique asset management industry.

Research Objectives

There are three main objectives of this research:

Objective 1 – To investigate the importance of leadership in driving job satisfaction, staff retention and output within the UK's boutique asset management sector. In small, often owner-managed investment businesses where competitive advantages are specialisation, investment expertise and client relationships, the key question emerges as to whether leadership is important, or conversely, simply obstructs the dynamism and entrepreneurialism which support the success of the industry?

Objective 2 – To assess how leadership manifests itself in practice, how different stakeholders view leadership, and how this influences their approach to leadership and its development.

Objective 3 – To synthesise the findings from this research to recommend practical steps that boutique asset management businesses can take to enhance leadership capabilities within their organisations and enable them to succeed through numerous generations.

Report Structure

To achieve these objectives, this report initially explores some of the existing literature relating to leadership, job satisfaction, leadership development, performance and professional services firms which informed and supported this research. Thereafter, the methodology of the primary research is detailed. The research included surveying 217 members of staff across 27 boutiques and interviewing 14 boutique leaders and 7 leadership consultants. The conclusions of the survey and interviews are then summarised before 11 recommendations are offered. Finally, the limitations and opportunities for further research are explored.

Body of Knowledge

Understanding what is already known about leadership and the development of staff enables these issues to be explored and tested in the context of boutique asset management. The existing literature also provides insight into successful research methodologies from which this research has drawn. Along with the primary data, the existing literature also helps to support the findings and recommendations with which this paper concludes. This review considers literature on management philosophies, expert leadership, professional services firms, productivity, and feedback, all of which underpin this research.

Management

The concepts of leadership and management are multi-faceted, and there are many definitions available. In his book '*The Practice of Management*', Drucker (2007) defines management as a 'multi-purpose organ' with three distinct roles:

1. 'Managing a business;
2. Managing managers; and
3. Managing workers and work'

Adopting a broader perspective and considering the different viewpoints of Brech, E. (1975), Koontz and O'Donnell (1972), Keith, L. and Gubellini, C. (1975), Appley, L. (1982) and Fayol, H. (1949), management manifests itself in 5 broad areas:

1. '**Productivity** – Art of securing optimum productivity
2. **Human relations** – Art of getting things done through people
3. **Decision making** – Art of correct decision-making

4. **Leadership** – Art of executive leadership

5. **Coordination** – Manager is what a manager does'[14]

Fayol (1949) proposed that management should adhere to 14 principles, outlined in Figure 2:

Figure 2: Fayol's 14 Principles of Management[15]

Principle	Description
1. Division of Work	Producing more and/or better work from the same effort through specialisation
2. Responsibility and Authority	An obligation to carry out assigned tasks and the power to take decisions
3. Discipline	Ensuring adoption of a common system and code of conduct
4. Unity of Command	An individual employee should have only one superior from whom he should receive orders and to whom he should be responsible
5. Unity of Direction	Business lines with a common goal must have one head and one plan
6. Subordination of Individual Interest to General Interest	Ensuring the interests of the group come before the interests of the individual
7. Remuneration of employees	Should be fair to employee and employer
8. Centralization and Decentralization	Balancing subordinate involvement with managers' authority
9. Scalar Chain	A chain of authority and communication that runs from top to bottom
10. Order	People and things must be in suitable places at appropriate time for maximum efficiency

[14]https://www.businessmanagementideas.com/management/definitions-of-management/definitions-of-management/19418#Definitions_of_Management_By_Different_Authors [Accessed 5th August 2021]

[15] Adapted from Fayol, H. (1949). *General and Industrial Management* (C. Storrs, Trans.). Sir Isaac Pitman & Sons, London

11. Equity	Ensuring employees are treated fairly
12. Stability of Personnel	Reducing turnover
13. Initiative	Encouraging staff to develop and execute plans for improvement
14. Esprit de Corps	Promotion of teamwork and coordination

Although written over 70 years ago, it can be argued that these principles still pertain today and provide a useful foundation when considering leadership.

Expert Leadership

The theory of expert leadership was established by Dr Amanda Goodall, and her work demonstrates that many industries, including healthcare (Goodall et al., 2011), academia (Goodall, 2009) and even sport (Goodall et al., 2011 and 2015), benefit by selecting leaders with prior expertise in respective fields over professional, non-expert managers. Furthermore, those with greater levels of expertise make better managers, on average (Goodall, 2009). Artz et al. (2017, pp. 23) conclude that 'satisfaction levels are higher among individuals whose supervisor could, if necessary, step in competently to do that job and whose supervisor knows his or her own job extremely well'.

Goodall provides several explanations for this phenomenon including the fact that expert leaders understand what it takes to succeed in that role which means they can encourage the actions and 'create a work environment that is conducive to high productivity in core workers' (Goodall, 2012 pp. 23). Expert leaders are more credible, can lead by example, can better empathise with their staff, can set suitable goals, and provide appropriate feedback (Goodall, 2012; Mumford et al., 2000; Basadur, Runco, & Vega, 2000).

The hiring of professional (non-expert) managers in boutiques asset management is rare and given that Goodall's theory of expert leadership has not been explored in the context of asset management at the time this research was conducted, it was interesting to explore the validity and usage of Goodall's theory in this context.

Leadership in Professional Services Firms

Professional Services Firms (PSFs) and the leadership dynamics within them have been studied extensively by Prof. Laura Empson. In defining a PSF, Empson (2017, pp. 2) writes that their value 'resides primarily in individual professionals, or rather in the technical knowledge of, client relationships, and reputation which they possess'. Empson (2017, pp. 1) writes that 'the process of leading is about building consensus' and 'leaders of the firm are integral to defining the balance between the interests of the individual and the collective' (pp. 77). Empson (2017, pp. 19) says that leadership 'is both the position and process. Some say leadership is something that all professionals in their organisations should be doing; others complain that the leader is failing to do it entirely.'

Exploring the promotion of professionals to leadership positions, Empson (2017, pp. 2) says that professionals are 'often promoted or elected to leadership positions with very little preparation for these roles and may have limited appetite or ability to perform them. Professionals may be obliged to give up their first love – their professional work – in return for uncertain rewards and questionable status of a senior leadership role'. Empson (2017, pp. 25) goes on to say that 'on assuming a leadership role, a professional is likely to be highly regarded as an expert in their chosen professional field but relatively ignorant about issues of

management', implying thereby the importance of educating and supporting leaders to succeed in such roles.

Regarding growth and succession, Empson (2017, pp. 158) writes that 'professional organisations do not spring into existence fully formed, nor do they remain static. They grow and develop over time, introducing different structures and ways of organising in response to increasing scale and complexity'. Empson outlines 5 stages of growth of PSFs: 'founder-focused, collegial, committee, delegated and corporate' and says 'a professional organisation progresses to the delegated stage only if senior professionals are willing to relinquish authority to one or more of their peers'.

Leadership, Job Satisfaction and Productivity

Artz et al. (2017, pg 1) demonstrate a correlation between manager competence and worker wellbeing, stating that 'a boss's technical competence is the single strongest predictor of a worker's job satisfaction'. Green (2010, pg 1) finds that 'low well-being or job satisfaction are associated with greater quitting', drawing a link between manager competence and staff mobility. Lazear et al. (2015) propose that a great manager can increase the output of a team by a measure equating to adding an additional person to that team.

Oswald et al. (2015) demonstrate that happy workers across a range of industries tend to be 12% more productive, whilst unhappy workers tend to be 10% less productive. This suggests that those being poorly managed and who therefore exhibit low job satisfaction could subsequently be significantly less productive than those that are managed well and exhibit high levels of job satisfaction. Achor (2011) corroborates this in his survey of over 1,600

students that demonstrates that happiness not only leads to greater levels of productivity, but also leads to higher levels of engagement, creativity, and resilience to stress.

These conclusions are supported by Krekel et al. (2019, pp. 2) who found, from a meta-analysis of '339 independent research studies, including the wellbeing of 1,882,131 employees', that there is 'a significant, strong positive correlation between employees' satisfaction with their company and employee productivity and customer loyalty, and a strong negative correlation with staff turnover'.

Krekel et al. (2019, pp. 2) conclude that 'higher wellbeing at work is positively correlated with more business-unit level profitability'. The link between employee satisfaction, individual and organisational performance is further supported by the work of Bockerman and Ilmakunnas (2012), Bryson et al. (2017). Edmans (2011, 2012) demonstrates that there is a correlation between job satisfaction, equity prices and firm value.

Herzberg (2013) proposes that employee satisfaction and motivation can generally be improved by increasing a collection of factors, which he calls 'intrinsic motivators'. Other factors, which he calls, 'hygiene factors' typically do not lead to greater levels of motivation, but their absence can lead to dissatisfaction and a lack of motivation, see Figure 3 below. For example, paying someone incrementally more will typically not achieve a commensurate increase in motivation. However, if someone feels underpaid, this can lead to a lack of motivation. Conversely, recognising the contribution of staff and providing a sense of achievement more frequently can be expected to drive motivation incrementally.

Figure 3: Herzberg's Intrinsic Motivators and Hygiene Factors

Intrinsic Motivators	Hygiene Factors
• Achievement • Recognition • Work itself • Responsibility • Advancement • Growth	• Company policies • Supervision • Relationship with supervisor • Work conditions • Salary • Relationship with peers • Personal life • Relationship with subordinates • Status • Security

Source: Herzberg, F. (2003). 'One More time: How do you Motivate Employees', *Harvard Business Review*, January 2003.

In summary, to drive satisfaction amongst staff, which, in turn, can be expected to lead to higher motivation, better results and lower mobility, a good leader is therefore someone who can accentuate these 'intrinsic motivators' whilst ensuring the 'hygiene factors' are present and satisfactory.

Feedback and Performance

Considering the importance of feedback as a foundation of personal development and an example of good leadership, Longenecker (1997, pp. 213) sets out ten causes of ineffective performance appraisals of which five are as follows:

- Unclear objectives (83%[16])
- Lack of information on actual performance (75%)

[16] Percentages represent the proportion of respondents who considered the respective factor a cause of ineffective appraisals.

- Lack of on-going feedback (67%)
- Lack of focus on development (42%)

Gifford (2016, pp. 2) states that by and large, 'the formal annual appraisal…has been replaced with more frequent, informal exchange', widely referred to as 'performance management', because 'waiting until the end of the year to flag struggling employees allows failure to go on for too long without intervention' (Cappelli and Travis, 2016). Aguinis (2009, pp. 2) defines performance management as 'a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization'. DeNisi and Kluger (2000, pp. 505) write that 'it involves a never-ending process of setting goals and objectives, observing performance, and giving and receiving ongoing coaching and feedback'.

To enact effective performance management, Torringdon et al. (2017, pp. 229) recommend 'coaching and developing a feedback culture' which '92% of HR leaders and 79% of non-HR leaders saw as effective', compared with only 55% in the case of annual appraisals (Gifford, 2016 pp. 8). Smither (2005) builds on this by suggesting performance can only really be expected to improve if *action* is taken after feedback is received, which is why an on-going approach to performance management is so important.

Cannon and Witherspoon (2005, pp. 1) write that 'managers consider "candid, insightful feedback" extremely important to their development' and DeNisi and Kluger (2000, pp. 134) propose the following steps for effective feedback:

- Focus on the task and behaviour, not on the individual nor peers

- Include and maximise information on how to improve performance
- Include a formal goal-setting plan

Research Methodology

Process

Having developed an understanding of the current literature on leadership, particularly in PSFs, the purpose of the data collection was to gain insight into varying management practices and preferences in boutique asset management. Primary data was collected from members of staff throughout a range of boutiques across departments, levels of experience and seniority. This was carried out by surveying a sample of 27 boutiques, interpreting the conclusions from the survey, and exploring these results through one-on-one interviews with senior leaders throughout the participating firms.

Sample

As relatively small, mostly independent, and often founder-owned organisations working in a specialised, knowledge-intensive industry, boutiques tend to be very discreet in case competitive advantages be replicated or weaknesses exploited. This is particularly the case with the inner workings of the business, such as management practices and behavioural dynamics. Asset management businesses often publicise performance track records on their website or within other marketing material, particularly if it is ostensibly successful; however, unsurprisingly, they do not typically disclose how their staff view the leadership of the organisation.

Given the challenge of gaining access to boutiques, to be able to collect enough quality data within a limited time frame, for the purposes of this research it proved appropriate to partner

with the **IIMI** (**Independent Investment Management Initiative**)[17], a UK-based think-tank, lobbying group and networking platform established in 2010. The IIMI represents 42 mostly independent investment management boutiques in the UK and Continental Europe, overseeing c. £500bn in AUM in total for institutional, wholesale[18] and retail investors and representing c. 3,000 members of staff. In the IIMI's ongoing drive to promote the strengths of the boutique asset management industry and identify best practice within it, 27 UK member firms participated in the survey with 14 business leaders agreeing to share their views and experiences in dedicated interviews together with 7 leadership consultants.

The 27 boutiques participating in the research ranged in size from c. 10 members of staff and a few hundred million dollars in AUM to c. 200 members of staff and c. $40bn in AUM and accounted for c. 1,000 members of staff in aggregate. Participants included staff from all functions and levels of experience, from founders to new recruits and from Compliance Officers to Portfolio Managers. A more detailed breakdown of responses is provided in Figures 5 and 6 in the following Data Analysis section.

Survey

The survey used for this research was adapted from that developed by Goodall et al. (2020) for their research into how to motivate Danish doctors into positions of leadership. The survey included several sections to assess the following broad variables:

- **Leadership quality and importance**

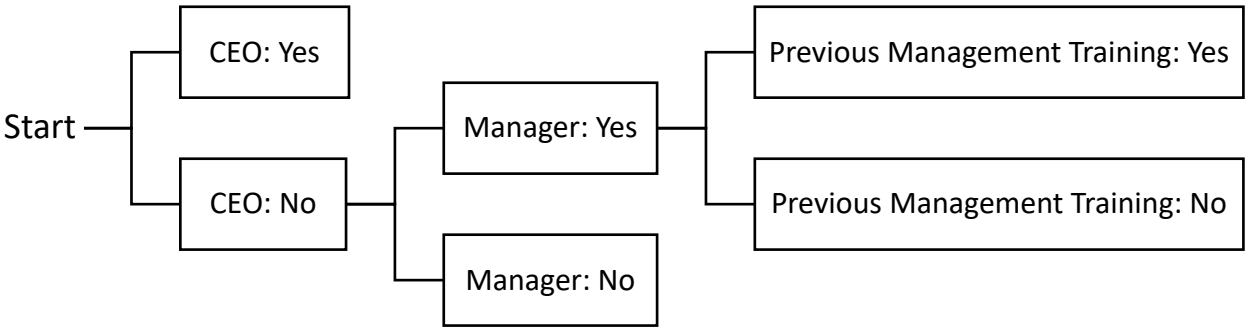
[17] https://theiimi.org/

[18] e.g., Wealth Managers and Independent Financial Advisors (IFAs)

- **Job satisfaction**
- **Leadership characteristics**
- **Management incentives and disincentives**
- **Leadership training**
- **Expert Leadership**
- **Personal characteristics**

The survey was also divided into separate streams to capture different information from respective segments of the sample, as shown in Figure 4:

Figure 4: Survey Structure



Categorising the respondents enabled the questions to be tailored to specific respondents based on their respective positions and experience, thereby facilitating the collection of more precisely targeted information. It also enabled clearer grouping of responses. For example, it was useful to capture top-down information from CEOs as to the extent to which they encouraged management training within their organisations, whilst also capturing bottom-up information from those in the most junior positions, relating to how they rated the

management exercised by their immediate manager. One of the additional benefits of having a single survey that adapted to the respondents' specific characteristics rather than carrying out several surveys was that it engendered a sense of unity and equality within participating firms, reflecting the fact that everyone in the firm was invited to complete the same survey.

The survey and information relating to its objectives were sent to contacts at the 42 member firms of the IIMI. These were mostly people in senior leadership positions such as the CEO, COO or Head of Distribution. These individuals were asked to distribute the survey amongst their staff and encourage as broad participation as possible. Although the survey was strictly anonymous and results were confidential, respondents were invited to include their level of experience at their firm and in the industry and the department in which they worked[19] to enable grouping. Participants were also invited to include the name of their firms, although this was optional, as were the other personal characteristics, to ensure that the survey did not exclude those who did not feel comfortable disclosing this information. Including the name of the firm served two purposes. First, it provided the opportunity to draw comparisons between businesses, had enough responses been submitted by each business for them to be representative, and second, it provided an indication of which firms participated.

The survey results included 217 responses, across the 27 participating firms, including 30 business leaders (CEOs or equivalent) and 187 other members of staff.

[19] Investing / Research, Asset Raising / Sales / Investor Relations, All Other (e.g., Business Management, Trading, HR, Operations, Administration, Compliance, IT)

Interviews

After the results of the survey had been analysed, interviews were conducted with 14 business leaders from participating boutiques to explore some of the main conclusions from the survey in greater detail. In addition, interviews were conducted with seven senior consultants representing four specialist leadership development and executive search firms[20], each with considerable experience in working with boutique asset management businesses, including some of the participants in the survey. The purpose of the interviews with these consultants was to attain a broader and more independent perspective over different leadership practices throughout the industry. These discussions were particularly useful in that they also provided insight into different approaches to leadership development.

Although the 18 interviews were kept flexible by design, allowing for deeper exploration of issues that the respective interviewee was particularly exposed to and/or knowledgeable about, the questioning focused broadly on the following core themes:

1. **The role of leadership in asset management**: What does it mean to you and what r**o**le does it play in your business?
2. **Picking the right leaders:** What makes a good leader, and how do you identify the right people for leadership positions?
3. **Leadership development**: How do you enable your leaders to succeed?
4. **Expert Leadership**: How do you manage the trade-off between leadership and execution?

[20] Egon Zehnder, Lutyens Advisory, Blackwood and Norman Broadbent

5. **Addressing underperforming managers**: How do you identify when leadership is unsuccessful, and how do you resolve this?

Data Analysis

Of the 42 member firms of the IIMI which were invited to participate in the survey, 27 firms confirmed their participation accounting for c. 1,000 members of staff. Of these, 217 complete responses were received equating to a participation rate of c. 20%. The remaining 15 IIMI members chose to not participate, either as a matter of principle, because they were conducting similar research themselves and did not want to duplicate or for reasons not disclosed. Twenty-one individual responses were incomplete and were excluded from the analysis.

The 217 responses were broken down as shown in Figures 5 and 6, with a more detailed breakdown provided in Appendix C and D. Respondents were categorised according to whether they were the CEO or not, and, thereafter according to their sex, primary function, and experience, both at their firm and within the investment industry. The functions were split into those that are generally revenue generating – 'Investing / Research' and 'Asset Raising / Sales / IR' – and those that are generally not[21]. The levels of experience were divided into three categories to differentiate between those who were new joiners, those with some experience, and those with significant experience.

Figure 5: Breakdown of Survey Reponses by Role

Role	#	%
CEO or Equivalent[22]	30	13.8%
Staff (non-CEO or Equivalent)	187	86.2%

[21] e.g. Business Management, Trading, HR, Operations, Administration, Compliance, IT

[22] 'Equivalent' was defined as reporting directly to a Board or Executive Committee

Figure 6: Breakdown of Staff (Non-CEO) Reponses

Sex	**#**	**%***
Male	116	65.5%
Female	61	34.5%
Undisclosed	10	-
Primary Function	**#**	**%***
Investing / Research	56	30.4%
Asset Raising / Sales / IR	41	22.3%
All Other[23]	87	47.3%
Undisclosed	3	-
Management Responsibility	**#**	**%***
Manager	74	39.8%
Non-manager	112	60.2%
Undisclosed	1	-
Years with Company	**#**	**%***
Less than a 1 year	22	11.9%
Between 1 and 5 years	65	35.1%
More than 5 years	98	53.0%
Undisclosed	2	-
Years in Industry	**#**	**%***
Less than 1 year	8	4.3%
Between 1 and 10 years	77	41.4%
More than 10 years	101	54.3%
Undisclosed	1	-
Total	**187**	

*Reflects proportion of disclosed responses

The main conclusion from these summaries is that the sample was sufficiently well-diversified and representative of the broader boutique asset management sector in terms of company size, function, experience, and sex distribution to be useful in reflecting the characteristics of the boutique sector collectively. Furthermore, responses were received from most if not all[24]

[23] e.g., Busines Management, Trading, HR, Operations, Administration, Compliance, IT

[24] Due to anonymity, it was not possible to accurately assess this.

CEOs across the 27 businesses which participated, representing some businesses that have numerous individuals reporting directly to a Board or equivalent governing body.

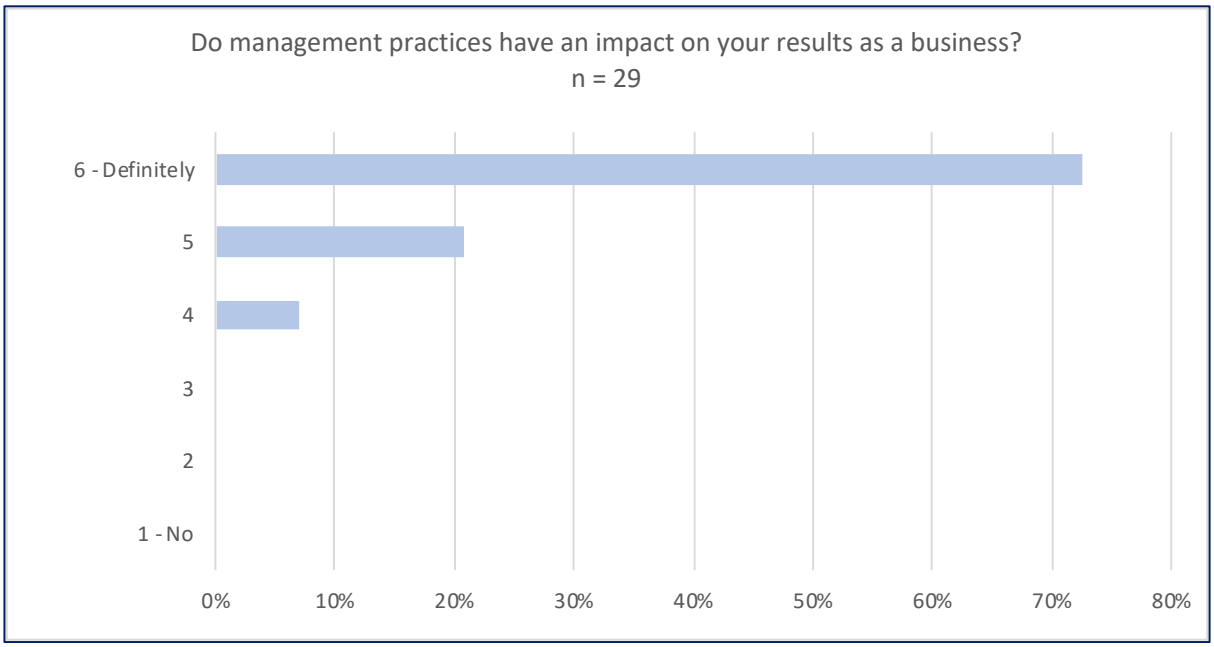
Results

CEOs

Impact of Management on their Organisation

The first insight from the sample of CEOs was that every respondent thought that management practices had an impact on their business' results. The mean response was 5.66 out of 6 and 21 (72.4%) of the CEOs who responded thought the impact was undeniable, denoted by a score of 6 out of 6, as shown in Figure 7.

Figure 7: CEOs' Assessment of the Impact of Management on the Results of their Business



Importantly, the term 'results' was undefined and intentionally left open to interpretation by the respondents, as these relate to the achievement of their firm's specific objectives.

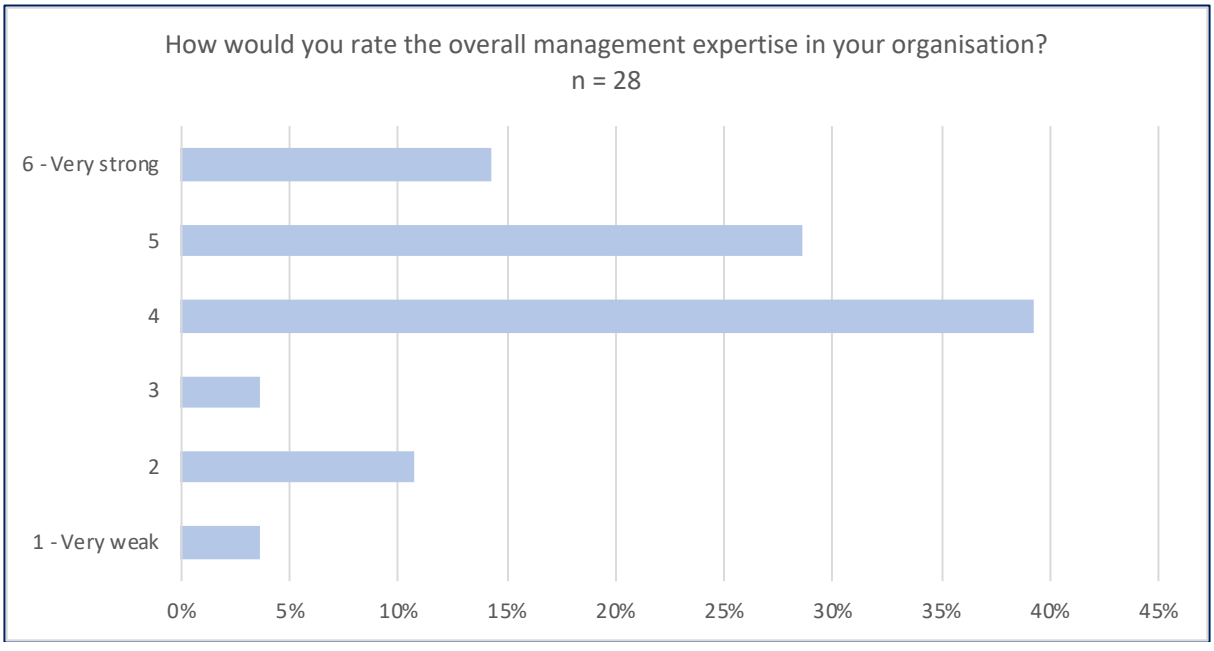
Reflecting on conversations with several respondents in follow-up interviews, these objectives included a combination of:

1. Better investment returns;
2. More assets, investment strategies and/or funds;
3. Retention of key staff; and
4. Higher profitability

CEO and Staff Assessment of Management in their Organisation

Twenty-three (82.1%) of the CEOs thought that management expertise within their respective organisations was above average, reflecting a score of 4-6 out of 6, as shown in Figure 8. 12 (42.9%) of the CEOs who responded thought that management expertise in their respective organisations was either strong or 'very strong', denoted by a score of 5 or 6 out of 6. Four CEOs (14.3%) thought that expertise in their organisation was weak or 'very weak', denoted by a score of 1 or 2 out of 6. The average score was 4.21.

Figure 8: CEOs' Rating of Management Expertise in Their Organisation



These results suggest that the CEOs of the sample firms generally believed that their firms exhibited high levels of management expertise, but that this indicator was not consistent across the sample, with a standard deviation of 1.26. Aware that these results could reflect some overconfidence by CEOs, members of staff were also asked to rate the overall quality of management within their organisations, see Figure 9:

Figure 9: Staff's Rating of Management Quality within Their Organisation vs CEOs

The distribution of overall management quality scores from staff was similar, with an average of 4.42 and a standard deviation of 1.19, suggesting the CEOs had made fair assessments of the overall management expertise within their organisations.

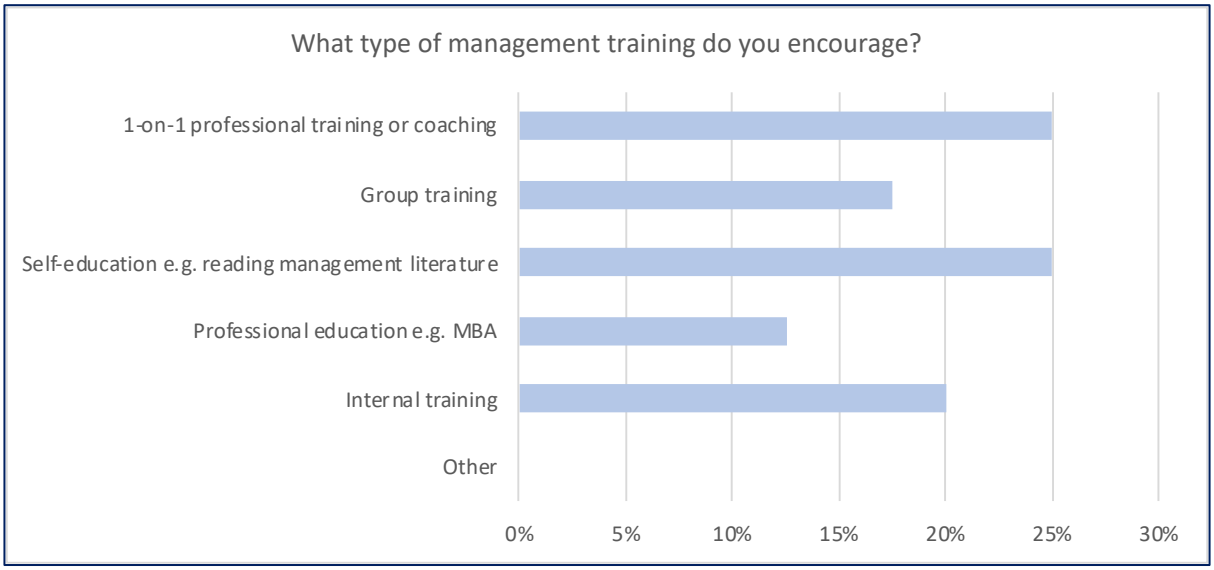
Finally, the results from the CEO responses demonstrated that 24 (85.7%) of the CEOs believed there was room for improving management expertise within their organisations, denoted by a score of 1-5 out of 6.

Management Training

Despite the belief that management practices had an impact on their results as a business, and that, in 85.7% of cases, management expertise within their organisations could be improved, only half (58.1%) of the CEO sample encouraged management training within their organisation. Of those CEOs who rated the management expertise within their organisation as either weak or middling, denoted by a score of 1-4 out of 6 (i.e. excluding those businesses exhibiting strong or 'very strong' practices), this proportion decreased to just 43.5%. In conclusion, those businesses that exhibited lower management expertise also demonstrated a lower tendency to promote management training within their organisation.

Conversely, of those CEOs who rated the management expertise in their organisations 'very strong', 75.0% encouraged management training within their businesses. Those CEOs who encouraged management training within their organisations encouraged the following types of training, see Figure 10:

Figure 10: Type of Management Training Encouraged by CEOs



Seven CEOs (46.7%) cited time constraints as a prohibitive factor to encouraging management training, three cited budget constraints as a prohibitive factor and three said they did not encourage management training because they did not believe in its effectiveness.

Staff

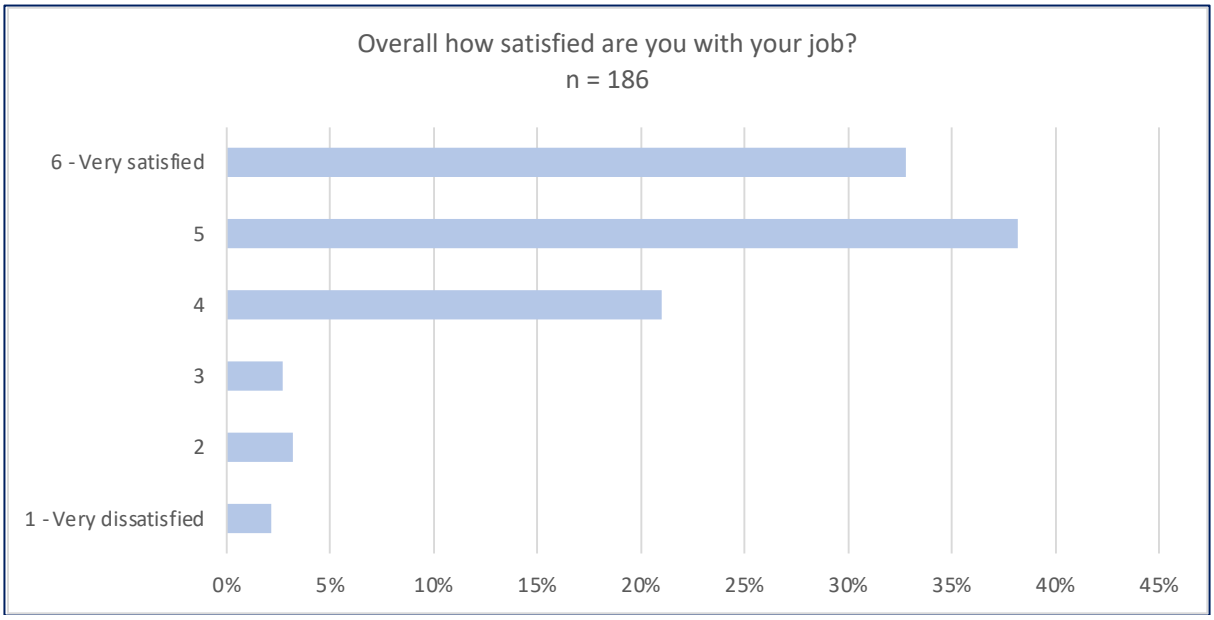
Job satisfaction

Overall, job satisfaction was relatively high amongst the sample of staff, as shown in Figure 11, with an average of score of 4.88 out of 6[25], exceeding the UK national average of 4.19[26]. This can perhaps partly be explained by the findings of Artz et al. (2008 and 2017) that smaller firms tend to exhibit higher levels of job satisfaction and the fact that the concentration of expert leadership in boutiques is generally high. Of the sample, 32.8% were 'very satisfied' with their job whilst 8.1% of staff exhibited below-average satisfaction, denoted by scores of 1-3 out of 6.

[25] 1 – representing 'Very dissatisfied', and 6 – representing 'Very satisfied'

[26] BCG/Dynata proprietary survey and analysis. Available from: https://siliconcanals.com/news/denmark-highest-job-satisfaction/ [Accessed 24th September 2021]

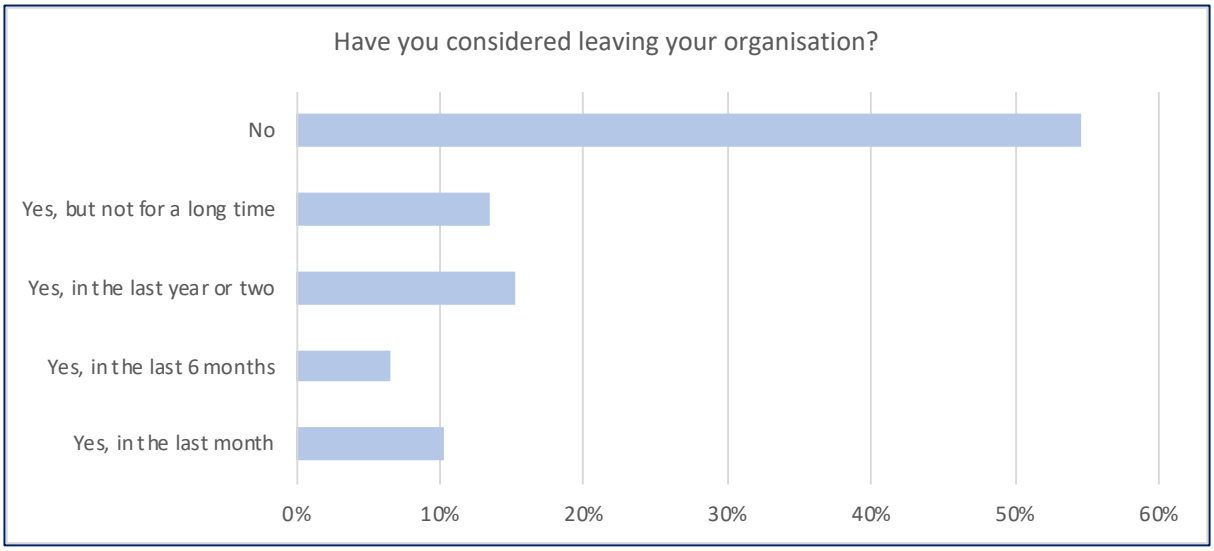
Figure 11: Staff Job Satisfaction



This distribution was not materially impacted by job function or industry experience, although recently appointed employees generally exhibited particularly high levels of job satisfaction, see Appendix E and D.

Of the staff respondents, half (54.6%) had never considered leaving their organisations, and 68.1% had either never considered leaving their organisations or had only considered leaving more than 2 years previously. The remaining 31.9% had considered leaving their organisations within the last two years, with 10.3% having considered leaving within the preceding month, as shown in see Figure 12:

Figure 12: Staff Consideration of Leaving Organisation



Correlation Between Job Satisfaction and Consideration of Leaving one's Organisation

The correlation between job satisfaction and consideration of leaving was also calculated. The overall correlation was -0.61, indicating that there was material negative correlation between job satisfaction and a desire to leave one's organisation, reflecting the findings of Green (2010) and Krekel et al. (2019). Of the respondents who demonstrated high levels of job satisfaction[27], two-thirds (66.4%) of respondents had never considered leaving their organisation, and only 17.6% had considered leaving within the preceding 2 years. Conversely, of the 54 respondents demonstrating low levels of job satisfaction[28], only 13.3% had never considered leaving their organisation and two-thirds (66.7%) had considered leaving within the preceding month.

[27] Denoted by scores of 5 or 6 out of 6

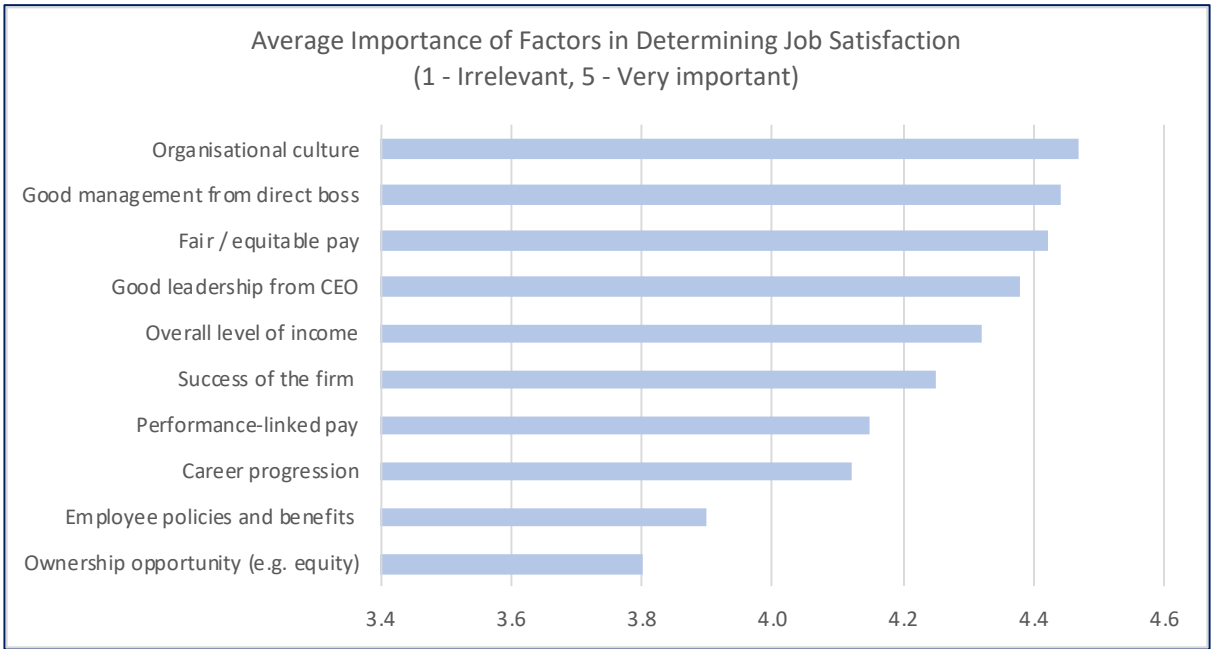
[28] Denoted by scores of 1-3 out of 6

Drivers of Job Satisfaction

To assess the relevance of leadership in determining job satisfaction, participants were asked to rank the following 10 factors on a scale from 1 to 5, reflecting their respective importance in determining their job satisfaction, 1 representing 'Irrelevant' and 5 representing 'Very important', see Figure 13:

- Organisational culture
- Success of the firm (e.g. performance / asset growth)
- Career progression
- Good leadership from CEO
- Good management from direct boss
- Overall level of income
- Performance-linked pay
- Fair / equitable pay
- Ownership opportunity (e.g. equity)
- Employee policies and benefits (e.g. health insurance, mat-/paternity leave, flexible working)

Figure 13: Relevance of Factors in Determining Job Satisfaction Amongst Staff



As well as demonstrating the highest average score amongst respondents, the scores for 'Organisation culture' also exhibited the second highest consistency, with a standard deviation of 0.73, with the scores for 'Overall level of income' exhibiting the lowest standard deviation at 0.70.

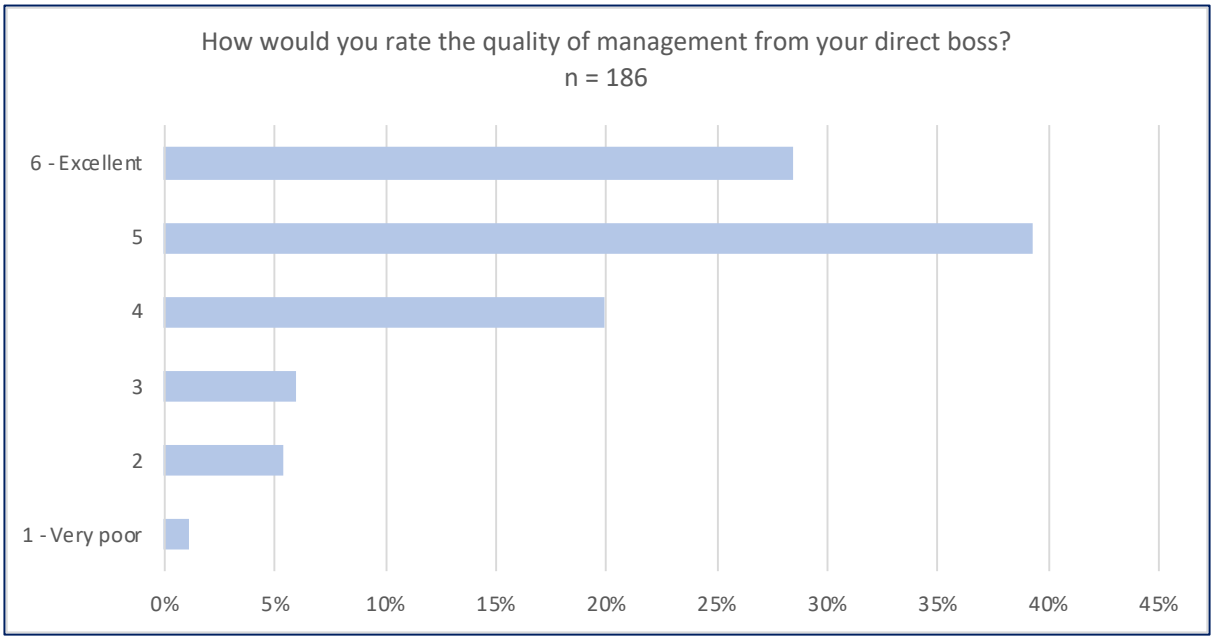
Looking at each of the three broad departments individually – 'Investing / Research', 'Fund Raising / Sales / IR' and 'All Other' – to establish whether these 10 factors depended on the respective respondents' function, 'Good management from direct boss' and 'Good leadership from CEO' were considered to be 'important' or 'very important' in determining job satisfaction by at least 75% of respondents in the case of each function group respectively. This suggests that leadership is relevant in determining job satisfaction across all departments (Artz et al., 2017).

The importance of 'Organisational culture' was even greater than that of leadership and was also consistent across all three function groups. Over 90% of respondents in each function group considered 'Organisational culture' to be important or 'very important' in determining their job satisfaction.

Management Quality

Respondents were asked to rate the quality of management displayed by their direct boss, hereafter referred to as their '**Manager Quality Score**', as shown in Figure 14.

Figure 14: Assessment of Management from Direct Boss (Manager Quality Score)



Two-thirds (67.7%) of respondents rated the quality of management from their direct boss as very good or 'excellent', denoted by a score of 5 or 6 out of 6. 12.4% rated the quality of management from their direct boss as below average, denoted by a score of 1-3 out of 6. The average score of the whole sample was 4.76, with a standard deviation of 1.15, which was relatively consistent across function with a range of only 0.30, see Figure 15:

Figure 15: Manager Quality Score by Function

Function	Manager Quality Score: Average	Manager Quality Score: St Dev
Investing / Research	4.62	1.00
Asset Raising / Sales / IR	4.63	1.34
All Other	4.92	1.14

Characteristics of a Good Manager

The behaviours exhibited by respondents' direct manager were also assessed. These were broken down into the following 16 behaviour categories (see Figure 16), and the frequency

with which each was exhibited was assessed on a spectrum between 1 (Rarely, if ever) and 5 (Very often / Always).

Figure 16: Survey Questions on Management Behaviours

Management Behaviour
Does your manager… - Trust you and delegate work? - Encourage you and praise you when you succeed? - Value your opinion and consult you before making decisions? - Communicate clearly and regularly? - Provide feedback on your work? - Communicate a clear and positive vision for the future? - Have clear values and practice what they preach? - Inspire you by being highly competent themselves? - Support your personal development and career progression? - Encourage collaborative working? - Generally direct work rather than encourage the use of initiative? - Encourage thinking about problems in new ways and questioning assumptions? - Care about your career progression as much as your results? - Care about your personal welfare? **Is your manager…** - Keen and available to help when you need support? - Good at making themselves available and listening?

To establish an understanding of the significance of each of these behaviour categories, the correlation was calculated between each, and the Manager Quality Score assigned to the respective respondent's direct manager. The results are shown in Figure 17:

Figure 17: Correlation Between Management Behaviours and Manager Quality Score

Behaviour	Correlation with Management Quality Score
Has clear values and leads by example	0.73
Communicates regularly and clearly	0.72
Is keen and available to help when support is needed	0.70
Provides feedback	0.67
Is good at making I available and listening	0.67
Cares about the career progression of staff as much as results	0.66
Communicates a clear and positive vision for the future	0.65
Actively supports personal development and career progression	0.62
Inspires by being highly competent themselves	0.62
Cares about personal welfare	0.60
Encourages and praises staff when they succeed	0.59
Encourages collaborative working	0.57
Values the opinion of staff and consults them before making decisions	0.56
Encourages creative problem solving and questioning assumptions	0.49
Trusts me and delegates work	0.41
Directs work rather than encourages the use of my initiative	0.09

The manager behaviours which were most correlated with high management quality were:

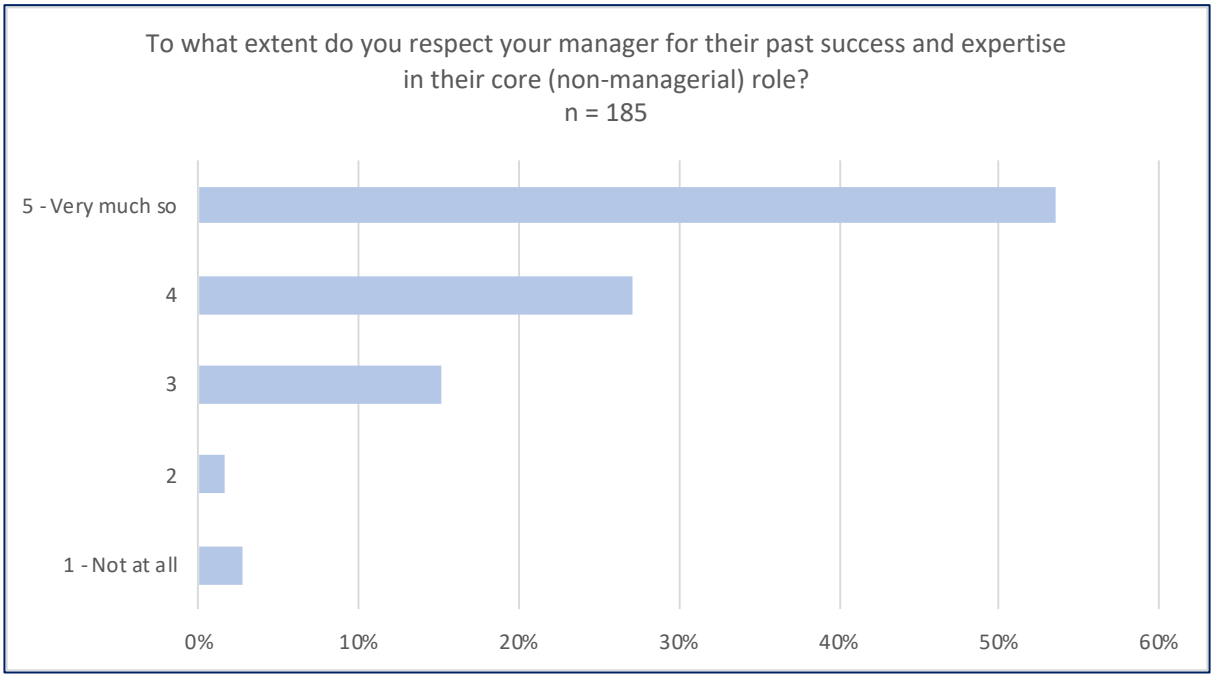
1. Having clear values and practising what they preach
2. Communicating regularly and clearly
3. Being keen and available to help when support is needed
4. Providing feedback
5. Being available to listen

These results demonstrate the importance for leaders in boutiques to exhibit integrity, to be good communicators and to be available to receive and deliver feedback and support their staff's development.

Expert Leadership

Respondents were also questioned about their experience relating to expert leadership (Goodall, 2012). This was carried out by asking respondents about the extent to which they respected their managers for their experience and success, and about the extent to which their managers' expertise had a positive impact on their own contributions. The objective was to assess the importance of assigning to positions of management individuals who not only have relevant experience, but have also achieved success in this role historically, see Figure 18:

Figure 18: Respect for Manager from Past Success and Expertise



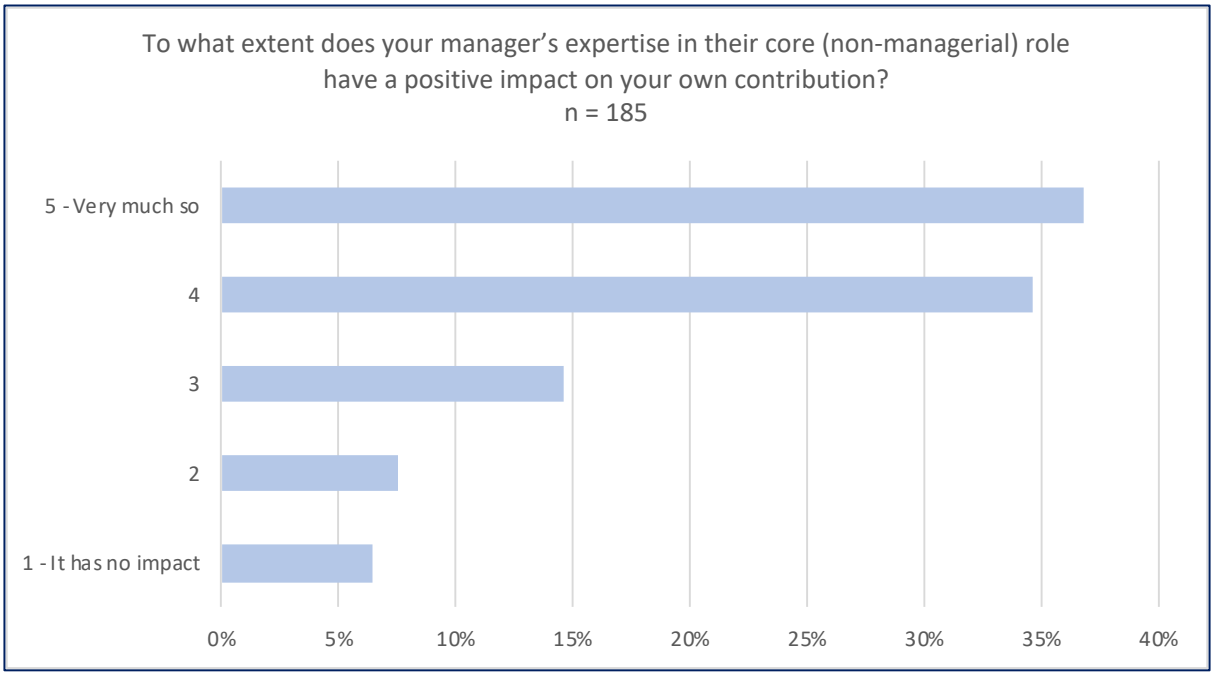
The average score was 4.27 out of 5 with a standard deviation of 1.01. This was also largely unaffected by function and level of experience. The sub-group[29] exhibiting the lowest average score reflected those in 'Investing / Research' who had worked in their company for over 5

[29] Grouped according to industry experience and function

years, which exhibited an average score of 3.74 and a standard deviation of 1.07. These individuals could be expected to be the most autonomous.

The impact of manager's experience on results was also significant, as shown in Figure 19:

Figure 19: Impact of Expert Leadership on Results



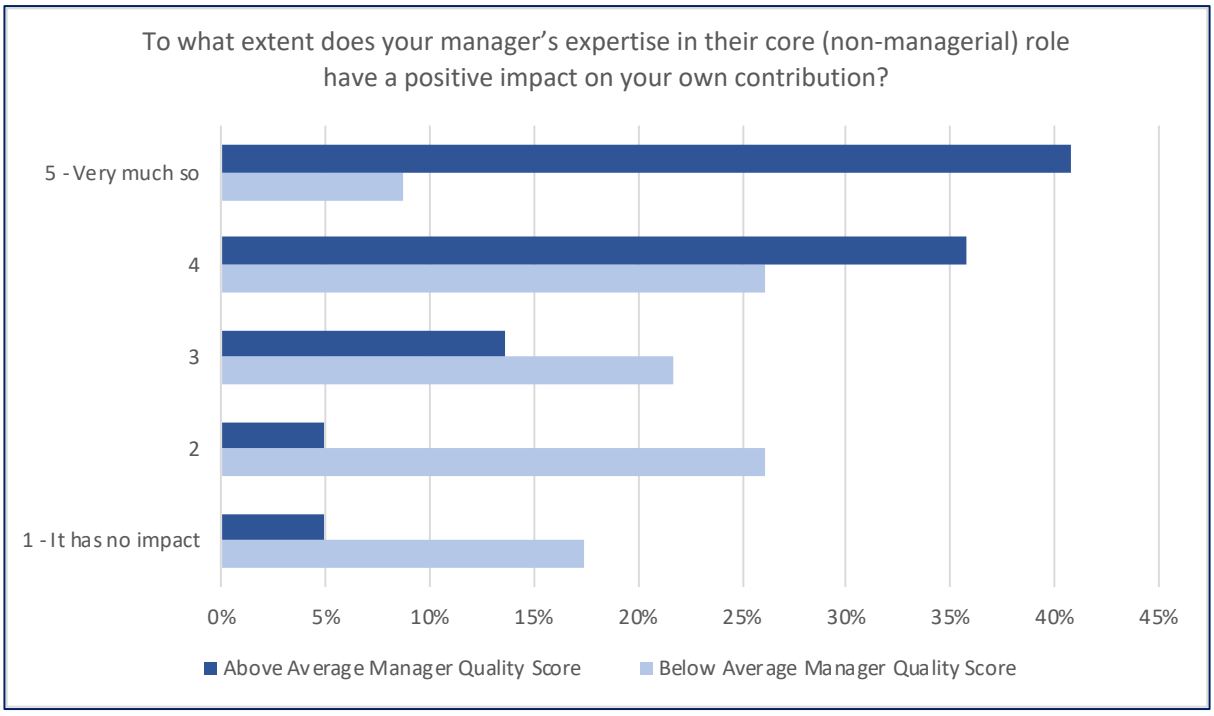
The sample of staff exhibited an average score of 3.88 out of 5 with a standard deviation of 1.18 and, again, this was largely unaffected by function and experience. The sub-group that exhibited the lowest score related to those in 'Investing / Research' who had worked in their company for over 5 years with an average score of 3.15 and a standard deviation of 1.33.

To understand the extent to which these responses related to the respondents' assessment of their bosses' management, the distributions shown in Figures 18 and 19 were reproduced for two sub-groups: first, those respondents who had rated their managers as 'Above Average', with a Manager Quality Score of 4-6 out of 6; and, second, those who had rated

their managers as 'Below Average', with a Manager Quality Score of 1-3 out of 6. The results are shown in Figures 20 and 21 below.

Figure 20: Respect for Manager from Past Success and Expertise by Manager Quality Score

Figure 21: Impact of Expert Leadership on Results by Manager Quality Score



In instances where the quality of management was deemed to be less good, this corresponded with a decline in the respect that individuals expressed for their boss' expertise and past success – an average score of 3.65 versus 4.36, where management quality was deemed to be higher – as well as a decline in the impact that their expertise had on the individual's own contribution – an average score of 2.83 versus 4.02 where management quality was higher. What is not clear from the data is whether these respondents' managers had achieved less success/demonstrated less expertise, or their success/expertise were simply not exerting a positive impact on the relationship.

The Relationship Between Good Management, Job Satisfaction and Likelihood of Leaving

The relationships between good management, job satisfaction and consideration of leaving were also assessed by calculating the correlations between these factors. Given the 'likelihood of leaving' responses were nonnumerical, the results were translated into integers, see Figure 22:

Figure 22: Score Translation for Likelihood of Leaving Organisation

Have you considered leaving your organisation?	Translated Score
No	1
Yes, but not for a long time	2
Yes, in the last year or two	3
Yes, in the last 6 months	4
Yes, in the last month	5

The resulting correlation matrix for the 186 staff responses is shown in Figure 23:

Figure 23: Correlations between Management Quality, Job Satisfaction and Likelihood of Leaving

	Job Satisfaction	Likelihood of Leaving
Quality of management from boss	+0.52	-0.56
Quality of management in firm overall	+0.57	-0.59

Better management did, indeed, generally lead to higher levels of job satisfaction whilst reducing the likelihood that a member of staff had considered leaving the firm (Artz et al. 2017; Green, 2010).

The Impact of Good Management on Employees' Perception of their Potential Performance

The impact of good management on results was also assessed. Staff were asked whether they thought they would achieve better results if their manager was better at managing them. 78.0% of respondents said that better management would enable them to achieve better results. Furthermore, this response was consistent across functions and levels of experience.

Feedback

Exploring the importance of feedback in driving results (Torringdon et al., 2017; Gifford, 2016), where a Manager Quality Score was below average, denoted by a score of 1-3 out of 6, in only 17.3% of instances did those respondents' managers discuss their staff's output relative to expectations at least quarterly. This compared with 67.9% of instances where managers were rated 'excellent'. Participants were also asked if receiving feedback helped to improve their output. 98.4% of respondents said that feedback helped improve their

output[30], and 43.8% of respondents said that receiving feedback 'Very often / Always' improved their output. Again, these results were consistent regardless of functions and levels of experience.

Manager Selection

Staff participants in management positions were asked how they had become managers. Half (44.6%) of respondents said that they had moved into a position of management by default, because they were 'the most senior and/or experienced candidate'. 10.8% of managers had 'asked to be in a management position', and 36.5% had been actively selected[31].

Of those who were in a position of management by default, 30.3% did not enjoy managing[32], and 24.2% considered themselves to be of below average quality at managing[33]. This compared with just 8.6% and 5.7% respectively for those who were in a position of management because they were actively selected, or because they had asked to take on the additional responsibility.

[30] This reflects scores of 2-6 where 1 denoted 'Rarely, if ever', 3 denoted 'Sometimes' and 6 denoted 'Very often / Always'.

[31] See Appendix G for a summary of responses.

[32] Denoted by a score of 1-3 out of 6 in respect of the question: 'To what extent do you enjoy management?', 1 – being 'Not at all' and 6 – being 'Very much so'

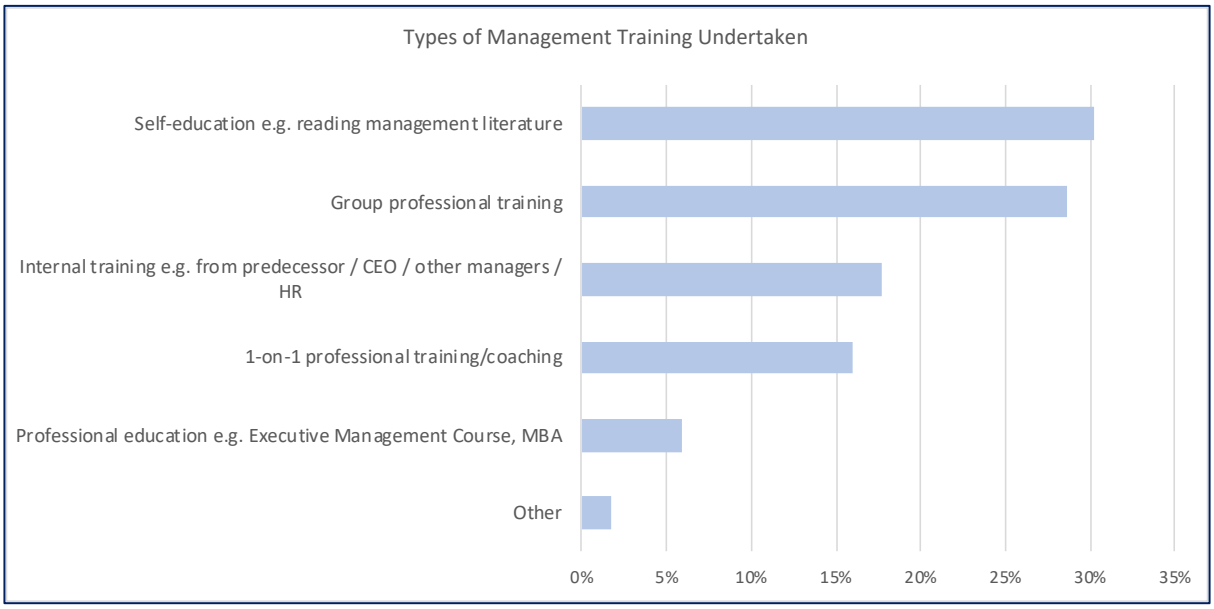
[33] Denoted by a score of 1-3 out of 6 in respect of the question: 'Do you consider yourself to be a good manager?', 1 – being 'Not at all' and 6 – being 'Very much so'

In summary, those in a management position by default were over three times more likely not to enjoy management, and over four times more likely to believe they would not be particularly capable of fulfilling the role than those managers who were in that position because of an active decision. This reflects the conclusion of Empson (2017, pp. 2) that professionals are 'often promoted or elected to leadership positions with very little preparation for these roles and may have limited appetite or ability to perform them'.

Management Training

Of the 74 staff respondents in a management position, two-thirds (66.2%) had undertaken some form of management training, with the types of training shown in Figure 24:

Figure 24: Types of Management Training Undertaken by Managers



Almost all managers (81.6%) who had undertaken some training had found it helpful[34]. 'One-on-one professional training/coaching' and 'Professional education' were considered the most effective with 'Group professional training' deemed to be the least effective at making them a better leader[35].

Of those who had taken some management training in the past, 49.0% 'definitely' wanted to take more management training, with 'time constraints' cited as a prohibitive factor by 55.9% of respondents, and budget constraints cited as a prohibitive factor by 17.0% of respondents[36]. Of the 33.8% of managers who had not already undertaken some management training, every one of these would consider undertaking some management training in future, with 36.0% 'definitely' wanting to undertake some training.

Aspiring Managers

Of those 112 respondents who were not currently in a position of management, 90.2% would consider taking on management responsibilities in the future, with 63.4% actively keen to do so[37].

[34] Denoted by a score of 3-6 out of 6 in respect of the question: 'Was this training helpful in making you a better manager?', where 1 denoted 'Not at all', and 6 denoted 'Very much so'

[35] See Appendix H for average effectiveness scores by type of training.

[36] See Appendix I for reasons prohibiting managers from taking more management training

[37] Denoted by a score of 4-6 out of 6 in respect of the question: 'Would you like to manage people now or in the future?', 1 – being 'Not at all' and 6 – being 'Very much so'. See Appendix H for the breakdown of responses.

Of the 101 respondents who would like to manage in the future, there was a range of reasons for wanting to do so. Providing a 'new challenge /opportunity for personal development', enabling the individual to 'have a positive impact on the team, department and/or organisation', and 'career progression' were the three most frequently cited explanations[38]. Furthermore, those not in a management position demonstrated a high degree of confidence in their leadership capabilities, denoted by an average score of 4.5 out of 6 to the question: 'Do you think you would be a good manager?', with a standard deviation of 1.04[39].

In conclusion, there is a strong supply of aspiring leaders in boutiques who have the right motivations and believe they would carry out these responsibilities well.

[38] See Appendix K for a summary of responses.

[39] See Appendix L for a summary of responses.

Discussion

This section summarises the key findings from the data analysis and draws from 18 interviews with senior boutique leaders and consultants who specialise in leadership development within the boutique asset management sector. The importance of leadership on staff retention, staff development and succession is explored in more detail, followed by an examination of key behaviours which leaders should exhibit, focusing on **strong communication**, **regular feedback**, **mentorship,** and **decisiveness**. The theory of expert leadership (Goodall, 2012) is assessed in the context of boutiques as well as the ways in which businesses approach leadership development. The section concludes by considering the impact of firm structure on leadership.

The Role of Leadership in Boutique Asset Management

People's perception of management and their approach to managing others can be heavily influenced by their own experiences. Positive experience of management, either as a leader or a follower, can demonstrate its value, and negative experience can crystallise an aversion to management as an unnecessary or obstructive force.

"At [the asset management division of a bulge-bracket investment bank] we were measured against quarterly sales targets. I learned a lot, but it was a very claustrophobic environment. Eventually I left to join [a boutique asset management business] because I wanted to have more autonomy and be left to raise money without the bureaucracy and constant pressure of meeting targets."

– **Sales Manager of a Boutique Asset Management Firm**

The challenge that many boutiques face is that breadth of experience can be narrow and outside influence can be infrequent. Given the prevalence of partnership structures, ownership opportunity, stimulating and varied work, and an ability to be highly paid, many people work for the same boutiques for years and will often spend their whole career working for similar, like-minded firms. Over half of the survey respondents had worked in the asset management industry for over 10 years, and, of these, almost three quarters had worked at their firms for over 5 years.

Not only can staff turnover regularly be below 10% annually (per Figure 6, 11.9% of respondents had joined their firm within the last year), the number of staff in boutiques can be fewer than 10, even for mature businesses, meaning that they may only benefit by the perspectives and influences of new staff once every two or three years. One small boutique interviewed had only taken on one new senior investor in the preceding five years.

Although such consistency can be an asset, the persistence of the echo-chamber can at times prevent development of thought, which, in turn, can impact the growth of boutiques. Although some boutiques have remained small by design, others have simply not been able to grow. Where, therefore, does leadership fit in to the equation; and can a greater focus on identifying and developing leaders assist in driving the success and growth of boutiques even further?

Of the business leaders across the 14 boutiques interviewed, all cited good '**investment performance**' and/or '**distribution**' as the key determinants of an asset management business' success. '**People**', '**culture**', '**focus**', '**adaptability**', '**ownership**' and '**alignment**' also

arose frequently as important success factors. Less frequent still were references to '**governance**' and '**succession**', and these were generally only raised by boutiques which had a Board or other established governance structure, and/or which had gone through at least one round of succession. No-one interviewed suggested either '**leadership**' or '**management**' as one of the most important determinants of success, but all agreed about their importance after they had been proposed as such.

"I agree, good management is definitely important. But I guess that's more of a given".

– **CEO of a Boutique Asset Management Firm**

The survey results support this. As shown in Figure 7, every one of the senior leaders who were surveyed agreed that there was a link between management quality and the results of their businesses, with three-quarters believing that better management practices 'definitely' lead to better results.

Good 'investment returns', 'distribution', 'culture' and 'people' are certainly all important. The longest-standing asset management businesses generally demonstrate strength in most, if not all these areas. However, these criteria are, in fact, outcomes of leadership. Given the impact on culture and the crucial objective of attracting, retaining, and developing the best talent, as demonstrated in the survey results, leadership is not only an important factor but a fundamental one in driving the results of boutique asset management businesses. In fact, leadership is the principal unifying factor which influences all the other levers – 'investment returns', 'distribution', 'culture' and 'people'.

According to a 2019 report produced by Egon Zehnder on leadership development in asset management, 'most investment firms spend between 10 and 15 percent of their HR budget on training and development, compared to 40-50 percent on talent acquisition efforts (i.e., executive search)' [40]. Perhaps if the importance of leadership (the cause) were recognised to a similar extent as investment performance and the raising of assets (the effects), boutiques would invest more time and money in developing leadership capabilities within their respective organisations and could subsequently spend less time and money on recruiting from outside.

Staff Retention

Although one cannot conclude any causality, the results of the survey demonstrate a correlation between management quality and both job satisfaction and the tendency for staff to remain with their company, see Figure 23. These correlations are largely independent of function and industry experience. Like other PSFs, the value of asset management businesses 'resides primarily in individual professionals, or rather in the technical knowledge, client relationships, and reputation which they possess' (Empson, 2017, pp. 2). Particularly in small businesses, departures of key individuals can quickly and acutely impact both performance and AUM, immediately feeding through to a firm's bottom line. There is also a second order effect in that in the investment industry, staff turnover is regularly assessed by prospective investors and investment consultants during the due diligence process, with elevated

[40] Tesson, A., Koo, P. and Raghavjee, R. (2019). 'Asset Managers Need to Invest in Leadership Development'. *Conversations on Leadership*, Egon Zehnder

turnover generally signalling structural deficiencies and/or a change in investment approach. This can further inhibit a firm's growth.

Staff Development

As well as leading to enhanced staff retention, good leadership can also lead to better results from existing staff. The survey responses demonstrate that, on average across the participating firms, 78.0% of staff believe they would achieve better results if they were managed more effectively. As one boutique CEO said, "*Teams won't grow if you don't have the right management in place*". The impact of management practices on staff output is further supported by the positive correlation between management and job satisfaction, see Figure 23 (Artz et al. 2017).

Of further interest is the fact that the survey results also demonstrate not only that leadership is important in determining job satisfaction, but it is actually one of the most important factors of all (see Figure 13), second only to 'organisational culture', the two being closely interlinked. Notably, the importance of leadership ranks above other factors which are often cited in the asset management industry as being the main drivers of job satisfaction and performance, such as 'overall level of income', 'performance-linked pay', 'success of the firm' and 'career progression'. Although exploring these additional factors in detail falls outside the scope of this research, it is interesting to note that the equitability of remuneration, i.e., the perception as to whether remuneration is considered 'fair', was considered more important than both the overall level of pay and the mechanism through which it is measured, i.e. performance-linked rather than discretionary.

Succession

As well as leading to a more satisfied and creative organisation which generates better results and retains the best talent (Achor, 2011; Green, 2010; Krekel et al., 2019; Oswald et al., 2015), the link between leadership and succession is also particularly important within boutique asset management. The adage 'succession is success' came up in several of the interviews which were conducted. At the core of leadership is a view to the future. *"It is the mechanism by which a company progresses from where it is today, to where it wants to go"*, said one boutique CEO. For a business to become multi-generational requires good leadership, and the better the leadership, the more effective this transition will be (Bower, 2007).

One executive leadership consultant said, "*the role of a leader is to set others up for success*", which could just as well be the definition of good succession, whether in the context of a team or a business overall. Another executive leadership consultant said that one of the great leaders with whom they had worked approached their role as founder of their business "*as like building a spaceship that he would be instrumental in building but the moment it took off, it wouldn't need him onboard*", which elegantly summarises the role of leadership in facilitating succession.

In conclusion, leadership is important in driving results in asset management, retaining the best talent and in ensuring success continues from one generation to the next. It plays a key role, not only at the top of the organisation but also within and across all departments, and even on behalf of those who are experienced. In an age when capital markets are highly efficient, performance is so volatile and the competition from systematic and passive

investment products is so oppressive, fostering great leadership could be a key source of competitive advantage, and certainly one of the most attainable.

However, if it is so important, why is it often overlooked? One possible reason which relates particularly to boutique asset management is hubris. One of the leadership consultants interviewed said that founders of boutiques "*have generally got there through commercial success*", whether that be managing portfolios or raising assets. Given the hubristic tendencies that are abundant in the industry, leaders may over-attribute their personal success and the success of the businesses of which they have been a part to their own professional skill rather than the leadership which has guided and supported them. After all, results are more quantifiable than the value of good leadership. Sir Isaac Newton's humility happens to be less common in the world of asset management:

'If I have seen further, it is by standing on the shoulders of giants'

– **Sir Isaac Newton in a letter to Robert Hooke (1675)**

Another possible reason is 'survivorship bias', in that a number of the boutiques which continue to flourish may not have faced succession issues or existential crises during which the importance of strong leadership can be most clearly observed.

Leadership in Practice

Key Characteristics

Having determined that leadership has an important role to play in the long-term success of boutiques, it is useful to understand what the sector's participants deem to be the key

leadership characteristics to help inform what businesses should be looking for in identifying prospective leaders and in assessing them thereafter.

The survey results demonstrate significant correlations between certain management behaviours, on the one part, and the perceived quality of management, on the other. In reference to Figure 17, instances of behaviour relating to **integrity**, **open and honest communication**, **regularly delivering and receiving feedback** and **actively supporting the development of staff**, demonstrate a significant correlation with management quality. This suggests that there is a link between the frequency these behaviours are exhibited by leaders and the levels of job satisfaction, productivity, creativity, and commitment exhibited by their staff (Achor, 2011; Green, 2010; Krekel et al., 2019; Oswald et al., 2015). Notably, how managers work in terms of delegation and the promotion of autonomy are not particularly relevant.

To supplement these findings from the survey, communication and mentorship were explored further in the interviews to achieve a deeper understanding of what business leaders seek in their managers, and how this manifests itself in practice.

1. Communication

The importance of **frequent and open communication** came up in every interview. An Executive Director of one boutique said that, in picking their leaders, "*open communication and honesty are imperative*". "*It is all about communication. Communication, for me, is essentially what makes a good manager*", said a Principal of an Executive Advisory Firm. They went on to say that one Managing Partner whom they had placed in a leading Hedge Fund

was "*the best communicator, who was so open, so transparent, so honest, so high on EQ*". That individual was "g*ritty and makes the tough decisions but the whole way he is taking everyone with him, telling them how it is: 'this is what is happening, and this is why it's happening*'*. No cloak and dagger*."

The Managing Partner of one boutique explained that, in their experience, the asset management businesses that have been able to make the transition from a start-up to a larger, sustainable organisation have "*clarity of purpose…everyone in the firm knows why they are there, what the firm stands for, what it does and what the culture is*". Empson (2017) writes that 'the process of leading is about building consensus' and this cannot be done without frequent communication. According to a 2021 McKinsey report[41], 'when employees find their work to be meaningful, their performance improves by 33 percent, they are 75 percent more committed to their organization, and are 49 percent less likely to leave'. The report goes on to say, 'this isn't a one-size-fits-all solution; rather, our experiences have found that it is "five-sizes-fit-most". When leaders highlight the impact work has across five sources – society, company, customers, team, and personal success – they're able to create a greater sense of meaning for their people'.

As we emerge from the COVID-19 pandemic and remote working becomes commonplace, the importance of clear communication in leading teams is more salient than ever.

[41] Bromley, T., Lauricella, T. and Schaninger, B. (2021), *Making work meaningful from the C-suite to the frontline*, McKinsey Organization Blog

2. Feedback and Mentorship

Strong communication is an important characteristic not only in purpose and direction-setting. It is also required to create a strong **feedback culture** (Torringdon et al., 2017). One of the CEOs interviewed said that a key role of a manager is "*to pick up the mood music*", and proceeded to say that a strong feedback culture, rooted in openness and honesty, "*ensures that problems get handled…if there isn't that sort of relationship between managers and their staff where there is a listening and feedback culture, problems can fester…If you don't have proper communication and people don't feel that they can own up when problems have happened, things don't get talked about well in advance. People fear problem-solving rather than embrace it.*" "*If you have a genuine problem, it will never get better with time. It will never fix itself, ever*", said one Managing Partner. As Tony Hall, ex-Director-General of the BBC, said in an interview with Professor Laura Empson in 2021[42], as a leader "*you've got to keep listening and talking to people…it's really <u>really</u> important to pick up what's on people's minds and give people the confidence to tell you the truth.*"

Nearly half (41.5%) of survey respondents chose not to disclose the name of their firm, even under strict confidentiality, which goes some way to demonstrating how cautious members of the industry are about discussing leadership issues, and why active engagement is therefore so important.

[42] Empson, L. and Morley, D (2021). *Leading Professionals Podcast*. Season 1 Episode 12 with Tony Hall, Baron Hall of Birkenhead, CBE

The CEO of one small boutique, who is also the CIO, spends an hour each day walking around the office speaking to every member of their staff one by one, not about a particular piece of work but about how they are, what they are struggling with and where they can be further supported. Although this happens to relate to a smaller firm in which the CEO can do as much alone, the same principle can apply to organisations of any size, where this responsibility can be carried out by every leader throughout the organisation in respect of their own teams.

"One of the first things we do when we engage with an asset manager is assess if they have a proper feedback culture. If there isn't a culture of feedback and development, it is very difficult to succeed long-term".

– **Consultant in a Leadership Consulting Firm**

Empson (2017, pp. 175) writes that 'the challenge for leaders is to harness, and potentially amplify, the momentum for change that is building up within the professional workforce'. Developing a culture of communication and feedback is not only necessary to identify opportunities and threats within the firm. It is also required for proper **mentorship,** which is one of the main building-blocks of development, greater levels of performance (Finkelstein, 2018) and of effective succession. As the Managing Partner of one boutique said, "*mentorship is far more important than management lines…you need managers who want to understand the motivations of others…who are happy to stand back from the fray and watch others be successful and understand that the success of others is as much their own success as if they were doing it themselves*". To be a good leader, "*you've got to be an enabler…to which you need to dedicate time*" said one Executive Consultant (Babcock, 2015). Good mentorship and leadership require, "*a genuine interest in helping others, selflessness and confidence in one's*

own status and abilities", said another CEO. They went on to say that confidence is important because, "*mentorship doesn't really work if the mentor thinks their job is at risk*".

In addition to coming more naturally to certain character types, mentorship can also be encouraged with the right incentives. One senior leader said, "*if an individual's role is partly leadership of a team, they must be assessed according to the performance of their team and their compensation should reflect this…You need to marry management status with accountability. At the end of the day, compensation is really just a matter of enforcing accountabilit*y". Without open and honest communication, you cannot have effective feedback; without effective feedback, not only can you not respond to changing situations effectively, but nor can you develop a proper performance culture which strives for improvement.

"Good leadership is vital because it creates the space for everyone to do their job"

– **Managing Partner of a Boutique Asset Management Firm**

3. Decision-making

A leadership characteristic which was not explored in the survey, but which was raised in a number of interviews was **decisiveness**. The Managing Partner of one investment firm said that, "*in many boutiques, even though they've got wonderful people with amazing skills…, most of them struggle to make a decision…even people promoted to leadership positions. I think decision-making is one of the most underrated parts of leadership.*" Another CEO said that in identifying leaders, they look for "*the kind of person who can make everyone work*

better, make difficult choices, handle difficult people and still bring everything to a positive conclusion".

In his book '*Good to Great*', Jim Collins (2001) proposes the concept of 'Level 5 Leadership' as being one of the key ingredients that enable companies to make the transition from being an average performer to one that generates financial performance significantly greater than its peers over a sustained period[43]. Collins describes 'Level 5 Leaders' as having 'extreme personal humility': they see their organisation and its results in terms of 'we, not I' – with an 'unwavering resolve', which supports this point on decisiveness. One of the reasons for which decisiveness is so important, not only in boutiques but for business of all types and sizes, is that, to have a strong performance culture, you not only need an effective feedback-mechanism, but you also need to *act* on the feedback. As Smither (2005) proposes, performance can only be expected to improve if action is taken after feedback is received.

Expert Leadership and Leadership-selection

The survey results suggest that Goodall's (2012) theory of expert leadership also holds for this sample of the boutique asset management sector. As demonstrated in Figures 18 to 21, staff not only tend to have a high degree of respect for their manager for their past success and expertise, but they also believe this expertise helps improve their results. Furthermore, this tendency is consistent across functions and levels of experience.

[43] In his research Collins studied listed US companies but the principles are intended to be broadly applicable.

In conclusion, boutiques seem to benefit by promoting credible staff to leadership positions from within their organisation, and, in instances where this is not possible, should strive to hire managers who have already developed expertise within the industry. This is common practice amongst boutiques that tend to operate in a relatively closed community. As Goodall (2012) proposes, 'leaders who have spent most of their career in one sector (with a particular emphasis on the period prior to becoming a head), but not in one organization, will, typically, outperform those who have not'. This provides one explanation as to why job satisfaction is perceived to be higher than average in the boutique asset management sector.

However, having expertise guarantees neither leadership capabilities nor an intrinsic motivation to help others succeed. 'Inherent knowledge is not a proxy for management and leadership skills', and, instead, 'leaders must have adequate management knowledge and experience commensurate with the position' (Goodall, 2012). Of the 74 managers who participated in the survey (excluding CEOs), 53 had worked in the asset management industry for more than 10 years and could therefore reasonably be considered 'expert leaders'. Of these, half were managers by default in that they were 'the most senior and/or experienced candidate', 23% didn't particularly enjoy management[44], and 17% didn't think they were particularly good at managing[45]. This supports Empson's (2017) assertion that 'professionals

[44] Denoted by a score of 1-3 out of 6 to the question: 'To what extent do you enjoy management?' (1 – Not at all; 6 – Very much so)

[45] Denoted by a score of 1-3 out of 6 to the question: 'Do you consider yourself to be a good manager? (1 – Not at all; 6 – Very much so)

are often promoted or elected to leadership positions with very little preparation for these roles and may have limited appetite or ability to perform them'.

What is interesting about the survey results is that, unlike other professional services industries including law (Empson, 2017) and healthcare (Bäker et al., 2020), there is a strong supply of aspiring managers in the boutique asset management sector. Of the 112 survey respondents who were not currently in a leadership position, 26.8% said they 'definitely' wanted to manage people in future and an additional 50.9% expressed an active interest in doing so. Only 9.8% said that they never wanted to manage people in the future[46]. Not all these people will have the innate characteristics required to lead effectively, but it seems that boutiques can and should be more selective about whom they chose for leadership positions.

In conclusion, boutiques should be aware that, although there are benefits in selecting experienced members of staff for leadership positions, selecting leaders by default is not always appropriate for the individual nor for the business. As the Managing Partner of one boutique said, "*not everyone is right for managing*". The Executive Director of another boutique said businesses often "*suffer from prejudice in judging people on what they have done before rather than what they can go on to achieve*". Some experienced individuals may perform better focusing on their respective area of expertise instead of taking up a leadership position and, psychologically, may not be comfortable making the 'identity transition' from a high-performing expert to an inexperienced leader (Ibarra et al. 2008). Not only can it distract

[46] Denoted by a score of 6, 3-5 and 1 out of 6 respectively to the question: 'Would you like to manage people now or in the future?'

these experts from generating value for the business, but it can also impact the results of those under their leadership. Furthermore, those who are suited to one leadership position may not be suited to another. As the Managing Partner of one boutique said, "*the person who is best-positioned to lead an investment team may not be the best person to lead the firm*".

To avoid default promotion, it is the responsibility of the senior leadership team to create the opportunity to consider multiple candidates for the role and objectively assess their respective suitability according to the characteristics outlined above[47]. The CEO of one boutique said that they deploy an application process for selection in respect of every leadership position, even if only considering internal candidates. This ensured that they "*select the right person for the job, rather than the obvious one*". This assessment can be carried out internally or via a third party, deploying tools such as psychometric tests and collecting 360° feedback. Another CEO interviewed said they had asked all their staff to participate in Movement Pattern Analysis (MPA) to better understand everyone's motivations and decision-making processes. As well as understanding how different people might work together, it also enabled that CEO to identify potential leaders.

Leadership Development

Selecting leaders requires options, so boutiques also need to ensure that they nurture the supply of leaders coming up through the business, representing all departments. The COO of one boutique said that they start assessing leadership capabilities at interview, and even in

[47] There are of course many other characteristics that can be assessed, see Fernández-Aráoz, C. et al. (2017) but communication, expertise and decisiveness are reasonable prerequisites.

respect of graduates. They said that, even if they do not end up becoming leaders, this selection criteria means that all staff are "*self-aware, problem solvers and will work well with others*", which helps to fuel a high-performance culture.

However, selecting those with innate leadership capabilities represents only part of the equation. Boutiques can also enhance the leadership capabilities of their staff through leadership-development programs. This is particularly important in instances where there are too few leaders rising through the business, and where additional support may be needed for existing staff.

One Executive Director said that they had an "*open cheque book*" for anyone who wanted or needed training. This same organisation had been investing heavily in one individual whom they had identified in respect of a senior leadership position. They had partnered with a leadership consultant who was working with this individual to assess their characteristics through psychometric testing and 360° feedback before coaching them on areas of weakness. This Executive Director went on to say that investment in such training offsets the risk of reaching the wrong hiring decision. "*The most important thing is patience…there is a significant opportunity-cost from getting the wrong person"*.

The survey results highlight that not all businesses subscribe to leadership training. Nearly half (41.9%) of CEOs said that they did not encourage management training within their organisation. Half (46.7%) of the CEOs cited 'time constraints' as a prohibitive factor; 20.0% cited 'budget constraints' as a prohibitive factor, and 20% thought that management training was 'ineffective'. Interestingly, such aversion to management training was higher amongst

those CEOs who had rated the leadership capabilities of their firm lower. The CEOs who rated the management expertise within their organisation as either weak or middling[48], and whose businesses are therefore most likely to benefit by additional support, were 20% less likely to encourage management training in their firm. Although causality cannot be concluded between the adoption of leadership training and an increasing in leadership capabilities, this link is notable.

It became evident from some of the interviews that leadership development programs were generally not promoted in organisations in which there had been negative experiences with training historically. Low turnover and low levels of outside influence also played a role here given that bad experiences were not regularly contested nor offset by positive ones. In instances where cost and time had been a prohibitive factor, the same is, perhaps, true in that return on investment in leadership-development may not have been appreciated.

Structure

The extent to which the size and structure of boutiques has an impact on leadership was also explored in the interviews. It was expected that those businesses which were larger, more institutionalised, and subject to a formal governance structure such as a Board would demonstrate clearer and more establish approaches to leadership. Empson (2017, pp. 134) proposes that 'in "corporatized" professional organisations, the traditional emphasis on diffuse authoritarian individual autonomy is replaced by more explicit and hierarchical

[48] Denoted by a score of 1 to 4 out of 6 i.e., excluding those businesses who exhibit strong or very strong practices

governance structures and more stringent performance measurement to management systems for professionals in general and partners in particular'. By contrast, smaller boutiques can be expected to experience less outside influence due to fewer people joining each year, to have less-established HR functions (if they have one at all) and to have opaquer management structures[49]. All these factors could exert influence on the ways in which leadership is approached.

From interviewing boutiques across the size, age and complexity spectrum, it became apparent that, although the larger businesses had generally been obliged to reflect on their approach to leadership, either by their Board or because they had had to confront particular leadership challenges as they expanded, some of the smallest boutiques demonstrated amongst the highest levels of engagement with leadership, leadership development and awareness of its importance to their business.

As the Managing Partner of one boutique said, the role of leadership does not really change as you grow; however, communication and "*the need to have a clear message*" does become more acute. A leadership consultant suggested that "*leadership is a culture, not a structure nor a process…leadership is about creating a culture of development and entrepreneurship*". This is as applicable to the smallest asset management business as it is to the largest. It transpired that the ability for smaller boutiques to exert tighter control over the culture of their businesses can enable them to nurture strong leadership cultures without the need for

[49] For instance, in smaller firms staff often fulfil multiple, sometimes interdepartmental, functions.

institutionalisation of approaches. In smaller businesses, the onus on the CEO or Managing Partner to set and communicate the leadership-tone seemed to be even greater. This also reflects the previous point on proclivity to leadership development in which the view of the CEO can be left unchallenged.

Finally, it became apparent that strong leadership is in some ways most important in smaller boutiques because the succession challenges are that much starker. Due to the greater number of staff, larger organisations are likely to have access to a larger pool of prospective leaders than smaller ones, meaning that nurturing the available talent within smaller businesses is even more important.

Conclusion and Recommendations

Developing Leadership in Boutique Asset Management

There is compelling evidence from this research that boutiques are primed for great leadership. There is a high degree of expertise within the industry, cultures tend to be results-focused, competitive, and collaborative, and generally there is a strong supply of aspiring managers. Strong leadership throughout these businesses, from the CEO to lower management, tends to translate into higher levels of job satisfaction and lower staff turnover. Of the members of staff participating in the survey, over half had never considered leaving their organisations.

However, the survey results also demonstrate that leadership capabilities are not consistent across the industry. Over half of the CEOs interviewed and one-third of the staff believed that management practices could be improved in their organisations[50]. There is, therefore, scope for improvement. Although similar, boutiques can vary meaningfully in nature, with some boutiques more focused on leadership, leadership-development, and succession.

The following recommendations draw from the existing literature, the survey results and the interviews that were conducted to summarise some key principles and practices which boutiques can adopt to enhance leadership in their organisations in the search for superior results, a greater competitive advantage and more effective succession.

[50] Reflecting score of 1-4 out of 6 when asked to rate the overall quality of management in their organisation, with a score of 5 and 6 signifying very good and excellent leadership respectively.

1. **Establish the right governance structure**

Establishing a governance structure that allows for disintermediation between control and management, and which holds the leaders of the business accountable, is an important step to establishing strong leadership within boutiques. Like culture generally, a good leadership culture starts at the top. Furthermore, the right governance structure can justify and support difficult decisions relating to leadership selection.

2. **Develop leadership capabilities early**

Leadership characteristics should be assessed as early as possible and even at the recruitment stage, to ensure that there is a supply of leadership talent emerging through the business. As leaders appear and evolve, boutiques must identify these individuals and nurture these capabilities by assigning such individuals to positions of leadership early, whether on a temporary basis, such as leading projects (Babcock, 2015; Fernández-Aráoz et al. 2017), or a permanent one.

3. **Promote leaders from within**

The theory of expert leadership (Goodall, 2012) appears to hold in boutique asset management. Staff value the past success and expertise of their managers, and this is generally perceived to lead to superior results. Boutiques benefit from selecting credible leaders internally where possible, otherwise from within the industry.

4. Disassociate leadership from career progression, remuneration and control

A key role of a leader is to set others up for success. Some high-performing individuals can be more effective focusing on their area of expertise than on leading others. To ensure there is alignment of interest, boutiques can benefit from disassociating leadership from career progression, influence, and control. "*Leadership is a responsibility, not a status*" said one CEO. Ambitious individuals must be able to succeed in their career and leverage their experience to exert influence and control over their business without needing to be in a position of leadership. By addressing the 'principle-agent problem' (Jensen and Meckling, 1976), the appropriate governance structure can enable senior staff to exert influence or control without being responsible for the leadership and development of staff. This creates space for the right individuals to be selected for positions of leadership, whether as CEO or the head of a team/department. This also paves the way for effective succession.

5. Make feedback commonplace

Feedback is a fundamental component of good leadership and a high-performance culture (Torringdon et al., 2017; Aguinis et al., 2011 and 2012; Budworth et al., 2015). Staff and leaders alike should seek constructive feedback and endeavour to deliver it frequently. If the leaders of the business regularly seek feedback from their staff and communicate openly and honestly with them, this will set the tone throughout the organisation. "*A good feedback culture starts from the top*" said one leadership consultant. Although those in leadership positions should naturally be good communicators, the business should also promote the right practices, including regular, targeted feedback discussions and feedback from several sources (Gifford, 2016).

6. Select leaders from at least two candidates and assess suitability objectively

The most experienced and/or senior people on a team are not always appropriate for leadership positions. To avoid appointment by default, boutiques should ensure they select leaders from a pool of at least two candidates, and objectively assess innate leadership characteristics, intrinsic motivation and potential. At a minimum, leaders must be frequent and open communicators, and demonstrate integrity, decisiveness, and a genuine desire to develop others and enable them to succeed. Management processes and structures that are conducted by the wrong people will not achieve the right results, but if one has the right people, processes and structures can ensure one achieves consistent results.

'Those who build great organizations make sure they have the right people on the bus and the right people in the key seats before they figure out where to drive the bus'.

– **Jim Collins (2001), '*Good to Great*'**

7. Establish leadership objectives and align incentives

Leaders must have a clear understanding as to what their leadership responsibilities are and how they are distinct from their non-managerial role. "*Leading a team of portfolio managers is not the same as managing a portfolio*" said one boutique CEO. Leaders are accountable for the results of their staff, individually and collectively, and should be incentivised accordingly.

8. Set leaders up for success

Those selected for leadership positions should have the capabilities and motivations to succeed in such roles, a clear understanding of what is required to fulfil that role effectively and be appropriately incentivised. However, evidence suggests that effectiveness as a leader

can be enhanced by way of appropriate feedback, internal assignments and/or leadership-development programs (Fernández-Aráoz, 2017). Although one-on-one coaching has been most effective amongst the sample surveyed, different support succeeds for different people, therefore it is important to identify solutions suited to the individual.

Cost and time should not be prohibitive factors in respect of leadership development, given the additional revenue it can generate for the organisation and the hidden/eventual costs associated with ineffective leadership. According to research conducted by McKinsey and Egon Zehnder in 2011[51], 'companies with outstanding leadership teams have a high correlation with revenue growth, while those with solid but unexceptional leaders have no correlation at all'. Furthermore, given that investment firms generally spend around a quarter of the amount on training and development as they do on executive search (Tesson et al. 2019), this suggests that asset management business do have the budget; it just needs to be reapportioned to support the development of staff rather than to fund recruitment.

If a leader is not receptive to feedback and/or developing their leadership capabilities, they may not have the self-awareness required for the role. If someone in a leadership position believes they do not have the time to lead others successfully, it may signal that they are not correctly incentivised to carry out the role, they do not have the inherent motivation required

[51] Komm, A., McPherson, P., Graf Lambsdorff, M., Kelner, S. and Renze-Westendorf, V. (2011). *Return on Leadership – Competencies that Generate Growth*. Egon Zehnder International and McKinsey & Company, Inc.

to lead successfully, and/or they are understaffed. All these apparent shortcomings are addressable.

9. Re-evaluate leadership periodically

Businesses need to assess the strengths and weaknesses in their leadership team objectively and routinely. Leaders need to be evaluated periodically on the results of their team, and, in turn, the CEO/Managing Partner of a firm should be evaluated by the firm's Governing Body. As well as assessing the results of their team, it is also important for businesses to collect feedback from those who work above, alongside, and below that leader, as well as those who work directly for them (360° feedback). If staff are dissatisfied with the individual managing them, the evidence shows that this will not only impact their job satisfaction and results but can also lead to high-performing individuals leaving. As Mintzberg (1989, pp. 181) states, a leader 'maintains power only as long as the professionals perceive him or her to be serving their interests effectively'.

Boutiques should also consider how best to collect feedback. People may not always be inclined to criticise the leadership of their team, department, or company therefore anonymised feedback and/or active engagement can be helpful. As well as identifying areas of weakness, feedback can also help inform how to address these issues.

10. Identify and address weaknesses in leadership promptly

Initial assessment of leadership potential can be misguided, and motivations can change over time. If those in leadership positions are underperforming, and support is not helping improve results, or there is someone else who is better suited to the role, it is important that leaders

be replaced. Although this can be difficult to enact, such a decision can prove crucial to the continued developed of a team and the organisation. Replacing a manager is made easier if there is an effective:

1. feedback culture so issues can be identified and supported by evidence;
2. leadership appraisal system, so that issues get flagged early and reparations proposed; and
3. governance structure in place, to justify and support such a decision

"The oldest principle of effective decision-making: a degenerative disease will not be cured by procrastination. It requires decisive action".

– **Peter Drucker (1994), '*The Theory of Business*'**

11. Seek external advice when needed

It is to be hoped that this research has identified convincing evidence of the commercial advantages of establishing strong leadership within boutique asset management, and of the risks of underinvesting in leadership capabilities. If a business is conducted in such a way that it is unable to address any of the foregoing points or other leadership challenges that may arise, seeking external advice should be considered. Leadership issues that are not addressed due to time and/or budget constraints can lead to much more costly and time-consuming outcomes for the business. In the most extreme cases, such businesses may ultimately cease to exist.

Limitations and Opportunities for Further Research

This research has been conducted on the basis of a limited, albeit representative, sample of the ~1,200[52] boutiques in the UK. Although the sample used covers firms across the boutique size spectrum and including a representative distribution in regard to sex, levels of experience and function, many UK boutiques and members of their staff have been excluded.

Since the principal point of contact at each IIMI member firm was in a senior leadership position e.g., CEO or COO, and each was solely responsible for distributing the survey to their staff, it is possible that responses were received from those business that demonstrated superior leadership capabilities leading to selection bias. Although the results of the survey were completely anonymous, confidential, and used solely for the purposes of conducting this research, it is plausible that CEOs who thought they had leadership issues and did not want to risk this being disclosed chose not to participate.

Although the survey asked about both leadership by respondents' direct superiors as well as within their organisations overall, they were not asked directly about leadership from their respective CEOs. This was a proactive decision since CEOs are specific, personally defined, and identifiable in the context of each business and posing such a question could have discouraged respondents from disclosing the name of their respective firms. Comparison was explored between leadership at the top of the organisation (i.e., the C-suite) and that at lower

[52] Olivieri, B. (2021), UK Industry (UK SIC) Report K66.300, Fund Management Activities in the UK, IBISWorld

levels (i.e., middle management) within the interviews, concluding that the main leadership themes are similar, although the leadership perspectives and preferences in regard to CEOs merit exploration in further detail.

Nearly half the respondents chose not to disclose the name of their firm, with the result that it was not possible to compare data between businesses. The sample of responses which were attributable to specific businesses were not sufficiently representative to allow such comparisons to be reliably drawn. Although the impact of business-size and structure on leadership was explored in the interviews, and it was possible to conclude that the differences were not significant, it would be interesting to investigate this aspect in more detail. For example, it would be interesting to examine links between leadership capabilities and performance, asset-growth, and profitability, with greater analytic focus. To do this, not only would there need to be a fair assessment of management quality in a sufficiently representative sample of each organisation, but it would also be necessary to collect performance, AUM, and financial data from each. There would also need to be a sufficiently large number of firms participating to enable reliable conclusions to be deduced.

It would also be interesting to explore leadership in the context of much larger asset management businesses, of 1,000+ staff, for instance, to appreciate the similarities and differences relative to boutiques.

Governance structures and succession in boutiques have only been referred to briefly during this research as they relate to the role and enactment inherent in leadership. Both topics are

broad and fascinating, and their respective roles within boutique asset management invite further research.

Appendices

Appendix A: CFA Blog Titles – Current Thinking in Investment Manager Selection

1. *'How to Deal with Underperforming Managers'*
2. *'What Not to Do – Takes from Manager Selection Gone Wrong'*
3. *'Mutual Fund Performance Evaluation with Active Peer Benchmarks'*
4. *'Avoiding the Pitfalls: Best Practice in Manager Research and due Diligence'*
5. *'Manager Selection'*
6. *'Eric Bennett's Top 10 Manager Search and Selection Tips'*
7. *'Choosing Investment Managers: A Guide for Institutional Investors'*
8. *'Assessing Manager Risk: Looking beyond the Numbers'*
9. *'Manager Due Diligence: Searching for Alpha in Private Equity'*
10. *'The New Era of Manager Due Diligence'*
11. *'Insights on Manager Search and Selection'*
12. *'Manager Selection: Evidence, Methods for Selection, and Techniques for Managing'*
13. *'Asset Allocation Strategies and Manager Selection'*
14. *'The Art and Science of Hedge Fund Manager Selection'*

Source: https://blogs.cfainstitute.org/investor/2016/02/11/current-thinking-in-investment-manager-selection/

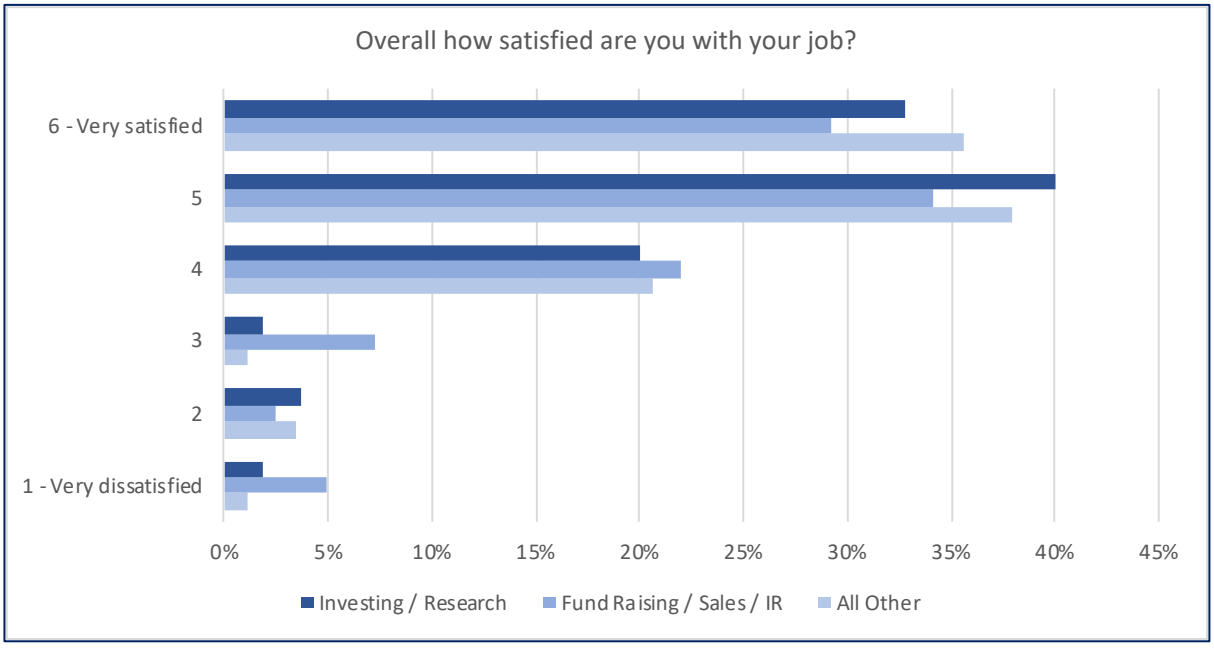
Appendix C: Detailed Breakdown of Survey Responses by Number of Responses

							In Company			In Industry		
		Male	Female	Investing / Research	Asset Raising / Sales / Investor Relations	All Other (e.g. Trading, HR, Operations, Administration, Compliance, IT)	Less than a 1 year	Between 1 and 5 years	More than 5 years	Less than 1 year	Between 1 and 10 years	More than 10 years
	Male			42	26	48	12	33	70	2	42	72
	Female			11	14	36	9	27	25	5	31	25
	Investing / Research	42	11				7	19	29	3	18	35
	Asset Raising / Sales / Inve	26	14				3	18	20	0	14	27
	All Other (e.g. Trading, HR,	48	36				11	26	49	4	43	39
In Company	Less than a 1 year	12	9	7	3	11				8	5	9
In Company	Between 1 and 5 years	33	27	19	18	26				0	44	21
In Company	More than 5 years	70	25	29	20	49				0	28	70
In Industry	Less than 1 year	2	5	3	0	4	8	0	0			
In Industry	Between 1 and 10 years	42	31	18	14	43	5	44	28			
In Industry	More than 10 years	72	25	35	27	39	9	21	70			

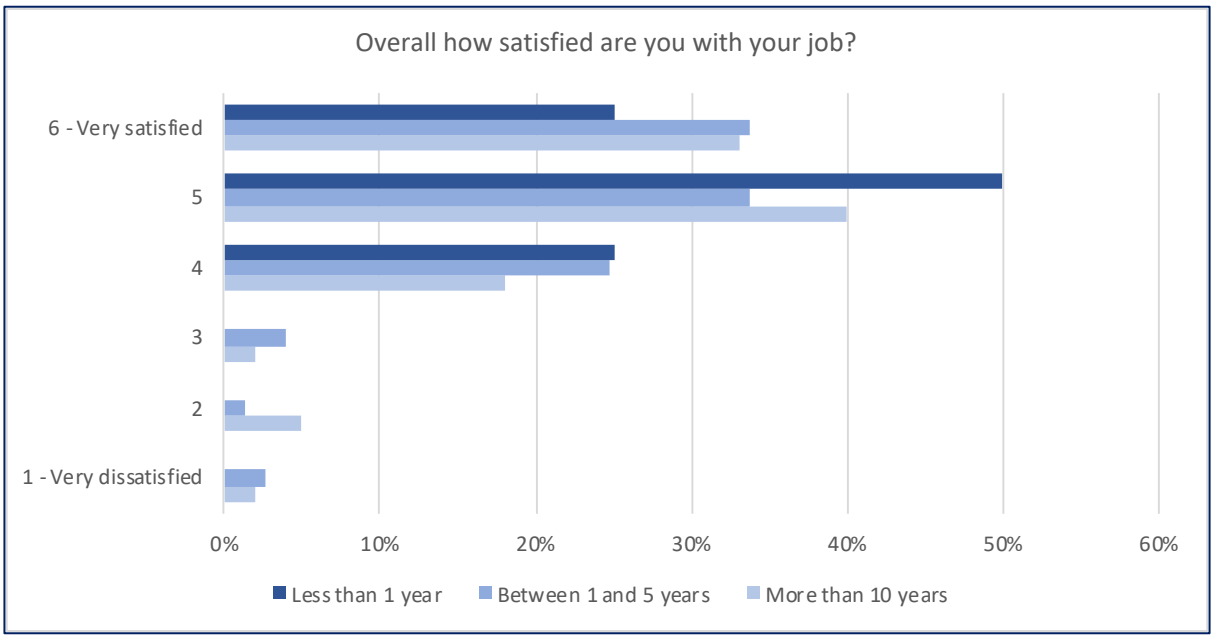
Appendix D: Detailed Breakdown of Survey Responses by Proportion of Responses

							In Company			In Industry		
		Male	Female	Investing / Research	Asset Raising / Sales / Investor Relations	All Other (e.g. Trading, HR, Operations, Administration, Compliance, IT)	Less than a 1 year	Between 1 and 5 years	More than 5 years	Less than 1 year	Between 1 and 10 years	More than 10 years
	Male			36%	22%	41%	10%	29%	61%	2%	36%	62%
	Female			18%	23%	59%	15%	44%	41%	8%	51%	41%
	Investing / Research	79%	21%				13%	35%	53%	5%	32%	63%
	Asset Raising / Sales / Inve	65%	35%				7%	44%	49%	0%	34%	66%
	All Other (e.g. Trading, HR,	57%	43%				13%	30%	57%	5%	50%	45%
In Company	Less than a 1 year	57%	43%	33%	14%	52%				36%	23%	41%
In Company	Between 1 and 5 years	55%	45%	30%	29%	41%				0%	68%	32%
In Company	More than 5 years	74%	26%	30%	20%	50%				0%	29%	71%
In Industry	Less than 1 year	29%	71%	43%	0%	57%	100%	0%	0%			
In Industry	Between 1 and 10 years	58%	42%	24%	19%	57%	6%	57%	36%			
In Industry	More than 10 years	74%	26%	35%	27%	39%	9%	21%	70%			

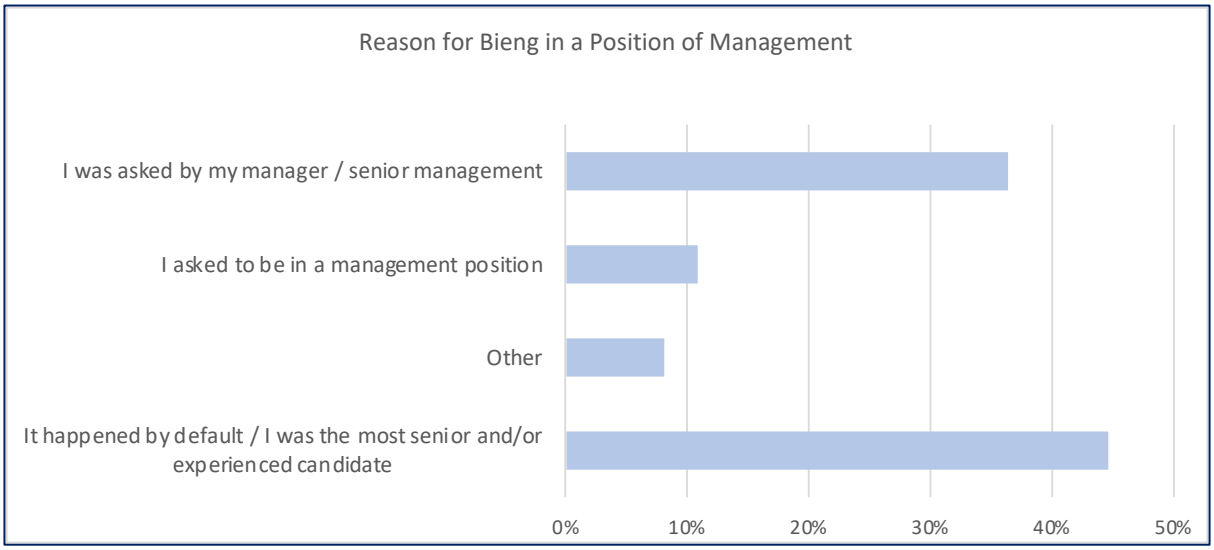
Appendix E: Job Satisfaction by Function



Appendix F: Job Satisfaction by Industry Experience



Appendix G: Reasons for Being in a Position of Management

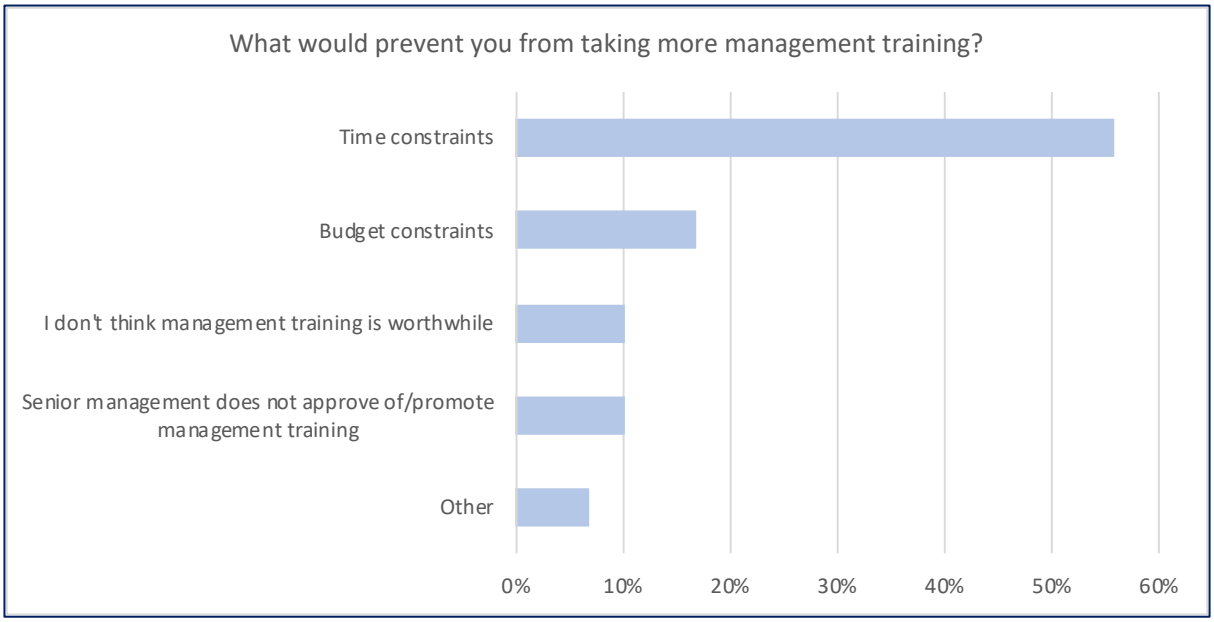


Appendix H: Perceived Effectiveness of Different Types of Management Training

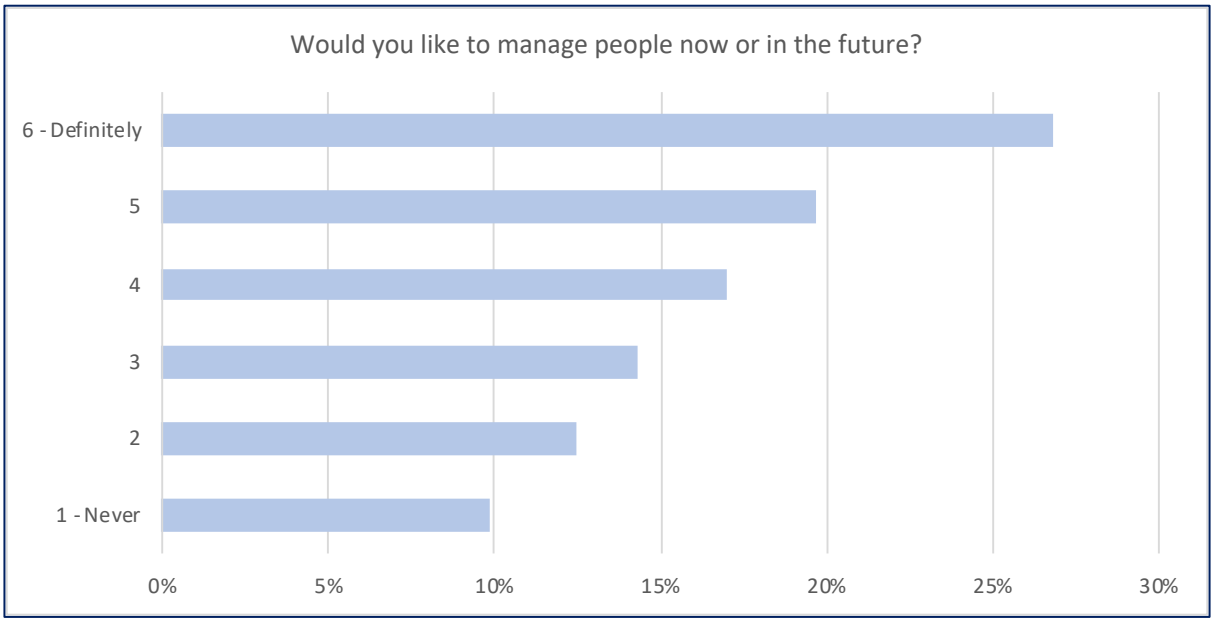
		Effectiveness[53] (1 – Low, 6 - High)	
Type of Training	**#**	**Av**	**Std Dev**
1-on-1 professional training/coaching	19	4.53	1.23
Professional education e.g. Management Course, MBA	7	4.43	0.49
Self-education e.g. reading management literature	36	4.39	1.09
Internal training e.g. from predecessor / CEO / other managers / HR	21	4.33	1.21
Group professional training	34	4.24	1.14

[53] Based on the extent to which the respondent found the training helpful in making them a better manager.

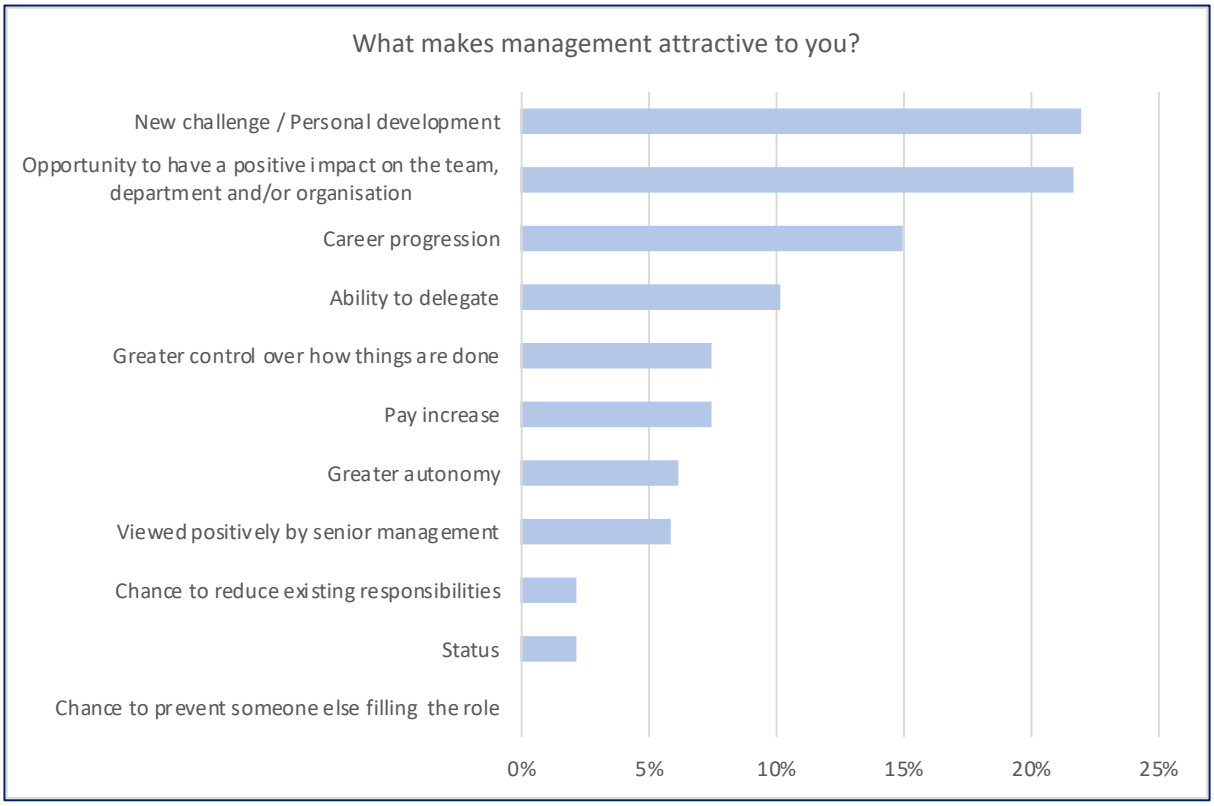
Appendix I: Reasons Prohibiting Managers from Taking More Management Training



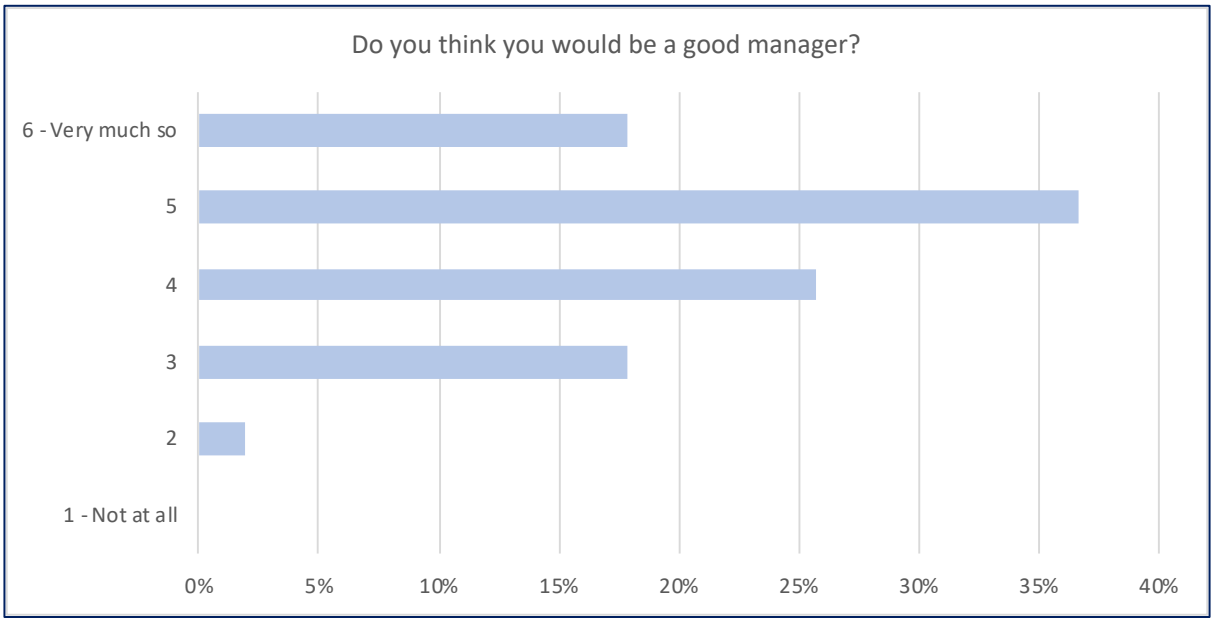
Appendix J: Desire of Staff to Manage People Now or in the Future



Appendix K: Reasons for Staff Wanting to Manage People in the Future



Appendix L: Non-Managers' Confidence in Ability to Manage



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