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**G**lobalisation has become an outstanding feature of asset management, as major domestic players have expanded their geographical footprints by creating a new infrastructure on the ground in key regions around the world. However, despite favourable market conditions, 55% of fund managers have yet to generate profits by going global, according to a report I was working on recently, sponsored jointly by Citi and Legg Mason.

As their domestic markets have matured, fund managers have rapidly ventured abroad in this decade in search of new clients and higher returns. The pace has been quickened by pension clients demanding all-inclusive global mandates and retail clients demanding funds with universal themes. The US still remains the industry's epicentre, but Europe and Asia are its new growth engines.

As half the assets have come to be held outside domestic markets, capability has been created in over 70 countries via new starts, organic growth, M&As and local alliances. But this opportunistic mix has conspired against potential synergies in front, middle and back offices.

Four overlapping models are being implemented with operational autonomy as their key characteristic:

- Sub-scale independent subsidiaries, with no more than

# Globalisation of funds: challenges and opportunities

By Amin Rajan

Two in every three global fund managers have not developed a scalable business model. Is lack of leadership the real problem?

- financial integration with the parent company
- Multi-boutiques
- Joined-up franchises.
- Networked scale players with high cultural integration

Boutiques and franchises share some common elements. Each is a centre of excellence in a well-defined product area. Each seeks to maximise its specialisms and minimise its overlaps with peers. Each relies on back-office outsourcing to secure operational excellence and business integration. What are the differences? Most boutiques do their own distribution. Nor are they obliged to share a global investment platform. In contrast, franchises are required to share all support structures under a common brand.

Yet, under both models, tensions are rife in revenue sharing, capacity sharing and product development when products of one unit are sold by peers elsewhere. In effect, it's "every man for himself."

Neeraj Sahai, global head of Citi Securities and Fund Services said: "There are clear winners. The report shows that around two in five managers have succeeded by having a clear strategy on investment performance, client needs and alliances with best of breed service providers in the back office."

On the downside, at least two in five also report "negative impacts" in areas like creativity, enterprise, decision-making and bureaucracy. This has frustrated efforts to drive down the cost-income ratio and jack up profitability. If anything, costs have risen faster than revenue in the majority of cases, despite favorable market conditions until the severe turbulence last August caused by the sub-prime debacle in the U.S.

The implied lack of operating leverage has limited the ability to create a scalable business model on the part of many. Only 45% of the sample reports a positive impact on profits, 25% report negative impact

## CASE STUDY THE CHAIRMAN OF A US ASSET MANAGER

**"The US domiciled fund managers have a huge backyard. But it is becoming saturated after two decades of growth. Prospects of high returns are fading: its investment markets are also too deep and liquid.**

**Ten years ago, we started exporting and importing funds but have since discovered that this option is slow. You need feet on the ground to succeed.**

**M&As have been the initial entry points. They are just as difficult as clean slate starts, if not more. Finding firms who have a disciplined philosophy has been hard, not least because a lot gets lost in 'translation' in the due diligence processes. Furthermore, there aren't many firms who want to**

**manage more assets, in more strategies, for more clients, in more places as we do.**

**Our aim is neither to create a 'one-company' mentality nor a common brand for our boutiques. For us, it is vital to retain our strong entrepreneurial culture which has driven our success. We avoid top decile targets because of their unacceptable volatility.**

**Finally, we are also keen to forge third party distribution alliances with well known global brands in parts of Europe and Asia Pacific, since our brand is not so well known outside the US. Besides, we also need some durable alliances as manufacturing and distribution continue to bifurcate globally."**

and 30% report no impact. Analysis shows that the winners so far are those with open networks and independent subsidiaries: around a third of our sample. They have capitalised on initial benefits and started a virtuous cycle, since the degree of complexity inherent in their models has been reportedly lower than in the two other models.

Not surprisingly, in the last three years, some of the mega mergers of the past had to be either divested or extensively re-engineered, as their shareholders could no longer wait to reap returns on their investments.

To their credit, most asset managers are now trying to create the necessary internal alignments in search of new clients and investment opportunities worldwide. They are also recognising that capitalising on new opportunities is about gaining a clear edge in three areas – leadership, strategy and innovation – which are absolutely critical to global success.

Taking them in turn, until the 2000-3 bear market, business leadership was often confused with the buzz of the investment function, not least because most CEOs were former portfolio managers. Today, leadership is seen as the glue that holds together a global organisation.

In successful companies, leaders at the centre as well as in the regions are encouraged to develop five sets of skills that are known to leverage people, products, process, and organisational synergies across the world. The skills in question focus on: delivering strategic leadership, displaying cultural sensitivity, raising the bar on all aspects of business, balancing contradictions inherent in global businesses and building teams. They enjoin leaders to go beyond the craft of investment and understand people and cultures in diverse settings in ways that are different from what they have been used to.

The second critical success factor relates to a culture of strategic thinking and personal accountability: three in every five asset managers do not hold their senior executives – at the centre or in the field – individually accountable for delivering strategic goals. They also see strategy as a set of medium-term aspirations; not as a

bumpy journey with clear short-term milestones. Nor do they have the tradition of “failing forward” by using the learning derived from early failures to go forward faster. Blame culture is all too evident.

In contrast, the successful companies have adopted a strategic framework that enjoins top executives to hold regular forums, involving all the movers and shakers in the company worldwide, to debate new ideas and subject them to a reality check by tapping into the “collective memory” of the company.

From it emerges goals for the near term, along with a list of actions. Necessary resources are allocated, key metrics set, accountabilities identified, incentives agreed, outcomes monitored and the course correction agreed when necessary.

The third critical factor relates to innovation. Many asset managers have often penetrated the new markets with freshly-minted products under the banner of innovation, as part of a leapfrogging game that relies on herd mentality driven by new lingo, fear and greed. For end clients, more has not meant better. Low financial literacy has cost them dear. In contrast, successful asset managers have promoted innovations via numerous routes. These have customized and simplified products for investors in diverse settings. Structures have been created in which new ideas are generated and converted into products that deliver solutions to clients’ needs.

“Globalisation is the future of our industry. Global scale requires not only operational excellence, but also attention to on-the-ground leadership and sensitivity to market and cultural differences. We are pleased with the way our global business is progressing, but we are always interested in learning more about the opportunities and challenges ahead,” added Peter L. Bain, Senior Executive Vice President of Legg Mason.

So, globalisation is here to stay. The report offers recommendations on how to minimise the inherent tensions in transnational aspirations by implementing a process that promotes integration, innovation and accountability. **TfB**

## AMIN'S ADVICE

### » BUSINESS DEVELOPMENT

CEO

- Globalisation is a very different kettle of fish from internationalisation. One involves exporting and importing of funds; the other involves significant capability on the ground in different countries
- The complexity of your business model increases exponentially as you go global
- Two in every three global fund managers have not yet been able to develop a scalable business model
- Such a model requires very significant actions in three areas: executive development, strategic performance process and product innovation

### » OPERATIONS

COO

- Operating leverage, resulting from a falling cost-income ratio as AuM grows, has proved a mirage for the majority of global houses. The main cause is ineffective integration of front, middle and back offices across the geographies
- There is no common understanding of what operational excellence means in principle nor what it entails in practice
- There needs to be clear metrics on product and cost synergies and actions on achieving them
- Alliances with best-of-breed service providers are vital in achieving the targeted synergies

### » INVESTMENT

CIO

- Portfolio managers on the ground need autonomy and space to implement high conviction ideas and to be accountable
- But operating models that offer autonomy also generate unintended consequences
- These models require a delicate balance between creativity and accountability; autonomy and bureaucracy
- Unless this balance is achieved, essential skills yet repriced to the detriment of cost effective growth and teamwork
- With fewer manufacturing locations, it is easier to achieve the necessary balance

### » KEY SUCCESS FACTORS

- Promote a global mindset amongst senior executives
- Minimise complexity in the operating models
- Seek best alliances on the ground