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The asset management industry heads back to the office?

By Kevin Quirk, Yariv Itah, Tyler Cloherty, and Colin Sullivan

For the first time since the onset of the COVID-19 pandemic, it appears that many companies will be headed back to the office, at least on a hybrid basis, sometime after Labor Day. The financial sector has been especially vocal about its desire to return to a pre-pandemic in-office experience. Leaders of asset management firms, both large and small, as well as executives of numerous banks and investment firms, are growing increasingly insistent about the need to re-populate their offices, citing such reasons as improving productivity, energizing innovation, encouraging engagement among employees, and reinforcing corporate culture. As the headline of a recent *Wall Street Journal* article makes clear: "Enough, Bosses Say: This Fall, It Really Is Time to Get Back to the Office."

While CEOs and leadership teams may be eager to quickly return to something close to the pre-pandemic 100% in-office model, that outcome is far from ensured. As the above-noted *Wall Street Journal* article states: "What makes the return effort more complex now is that many employees say they appreciate the flexibility that comes with remote work, and hope to retain at least a hybrid arrangement."

We interviewed 28 CEOs and leadership teams of some of the world's largest asset managers

To better understand the impact the COVID-19 pandemic has had on the asset management industry's working environment, Casey Quirk has been researching this issue and communicating with industry leaders about the topic since the onset of the pandemic. In recent months, we noticed a major change in tone from management on the issue of returning to the office. This led us to conduct a deep dive into the topic through in-depth interviews with the leadership teams—primarily CEOs, HR heads, and COOs—of 28 predominantly large, global asset management firms, who are setting their firm's return-to-work policies. The 28 firms collectively manage approximately $48 trillion in assets under management and employ more than 164,930 professionals in 54 countries.

Asset managers are heading back to the office

Casey Quirk's interviews indicate that firms are working to strike a balance between the requirements of their businesses and the realities of retaining a motivated, talented, and productive workforce.

Relative to prior research conducted on work policies, this deep dive revealed that *where we work* has suddenly become a top CEO priority. Fears that remote work is draining the "cultural batteries" of their firms was consistently cited by CEOs as the major driver behind their desire to make changes. Leaders were also consistent in their belief that the benefits of being in the office are largely muted if a significant majority of the workforce is not there together—creating a sense of "critical mass" was crucially important for an effective office environment.

Where we work has suddenly become a top CEO priority

Leaders indicate that return-to-office policies have been difficult to implement without strong, prescriptive language to formalize the approach and change employees' behaviors. In response, asset management firms appear to be migrating from an encouragement model—"it would be great to see more of us in the office"—to a mandatory attendance requirement. In fact, those who have been maintaining a laissez-faire, "the office is open if you'd like to come in" approach report consistently low attendance; very few have reached a level of 50% or more of their employees coming into the office one time or more a week.

Our interviews revealed that most leaders are implementing a "three days in the office, two days remote" model, as depicted in figure 1. Moreover, the "3-2" model appears to be coalescing around a Tuesday–Thursday schedule, with some survey respondents believing "Fridays have been lost forever," while others see Tuesday–Thursday as an interim step to ultimately transitioning back to a five-day, in-office workweek.

The past 2.5 years have "drained our cultural batteries"

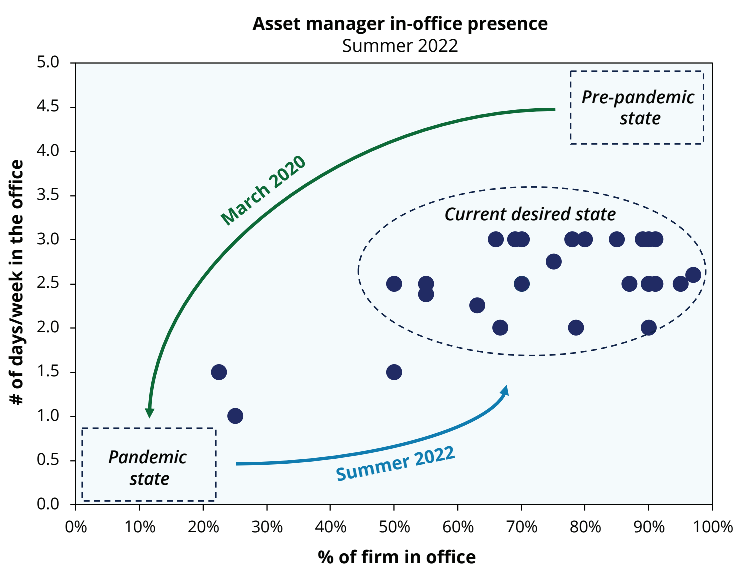
Interestingly, our research showed that while there were some firm leaders at each extreme—those who were strident proponents of five days a week in the office, and others willing to completely rethink the traditional in-person model—most ended up in the same place for practical purposes. Leadership teams think that a 3-2 model achieves a reasonably beneficial equilibrium for all parties.

Many firms are moving to a mandatory "3-2" in-the-office model this fall

Simply mandating a return to the office for three days per week may have a lower success rate if the office environment itself is not conducive to that model. In response, some firms plan to make real estate design adjustments such as using hoteling to accommodate employees' workspace needs in a flexible manner, providing additional collaboration and gathering spaces, and adding lifestyle amenities such as gyms, coffee bars, etc. to the office.

Firm leaders also report that they are considering the adoption of better hybrid technology and/or audiovisual (AV) apparatuses, such as full office integrations of coworking technologies, in an effort to provide a seamless experience between in-office and remote work. They also may seek to innovate on hardware and office layout approaches, such as redesigning conference rooms to install circular AV hardware, table-embedded screens, and multiple in-room cameras to "democratize" meetings and to place virtual attendees on an even footing with in-person attendees.

Figure 1. Asset manager in-office presence, summer 2022



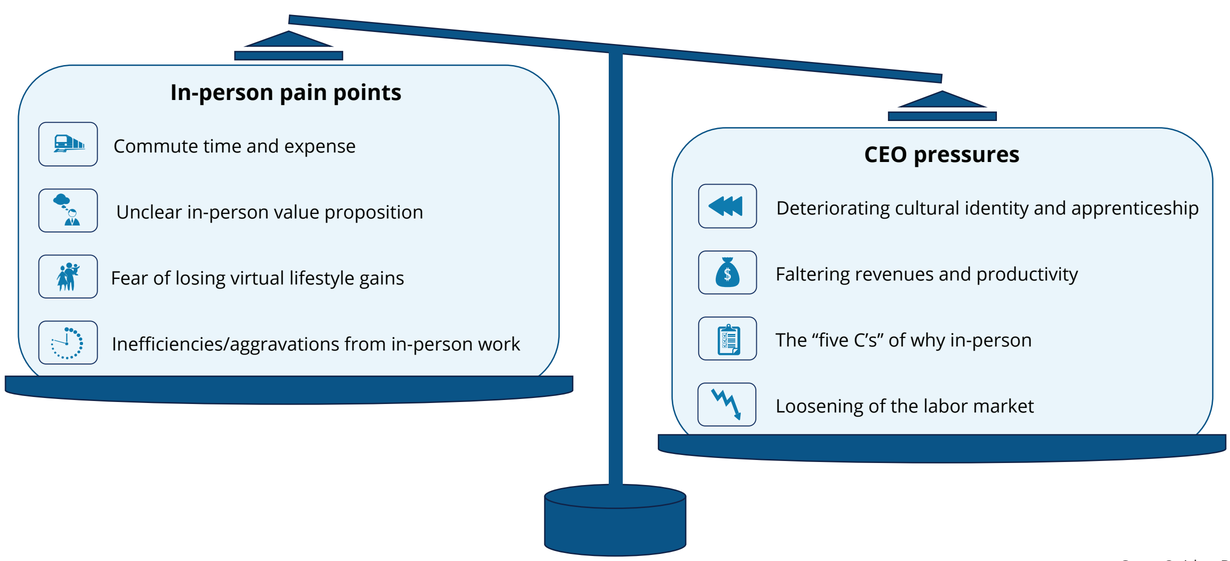
Why in-person?

It is important to understand that while the traditional nearly-100%-in-the-office-all-the-time model has been the standard in the asset management industry for decades, it was irreversibly disrupted by the pandemic. Leadership teams recognize that there are substantial challenges to the return-to-office goal since the new "virtual workplace" model has been afforded the opportunity to calcify over the past 2.5 years. Topping the most cited reasons by employees for not wanting to regularly return to the office was the prospect of having to *commute* again. Many employees, especially those who rely substantially on public transportation with long commutes, have either decided they won't commit to the commute again or are substantially weighing whether that commitment is something they want to opt into going forward. Employees' decisions on commuting may, more than any other factor, dictate what mainly in-the-office asset management firms' workforces will look like in the future.

Leadership teams, many of whom have been quite active in gathering employee feedback (often through regular employee pulse surveys), have identified a number of other issues that employees regularly cite as reasons for not wanting to return to the office on a regular basis. Among the biggest additional reasons are the *loss of flexibility* (many employees have found that the work-from-home experience affords them much greater opportunities to spend time doing things that they were missing previously), the *inefficiencies and aggravations of in-person work* (many view themselves as substantially more productive because there are fewer interruptions), and the fact that *the case for the value proposition of in-person/in-office work simply is not strong* and has not been made clear by leadership.

Leadership teams, on the other hand, are confronting a number of secular headwinds facing the industry and sense that a more substantial in-the-office approach can serve as a catalyst to a winning position in the future. The capital markets downturn in the first half of 2022 has depressed revenues and shrunk margins for asset management firms while heaping significant pressure on leaders to operate their businesses as efficiently as possible. Combined with an increased level of perceived safety around being in-person from a health perspective, the tone from CEOs and leadership teams on physical presence in the office has shifted dramatically (figure 2).

Figure 2. In-person pain points vs. CEO pressures



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Asset management firm leaders are definitively coalescing around the idea that people need to be in the office, at least some of the time, because that is the most organic way to build personal relationships, share knowledge among clients and colleagues, and cultivate new ideas. Successful arguments in favor of a return to the office frequently revolve around an intellectually honest discussion about the merits of the “five C’s” as described in figure 3.

The leaders we interviewed largely agreed that an in-person model stimulates *creativity*: Innovation has always been a central element of successful asset management firms—leaders frequently noted that they believe the lack of in-person interactions has stymied their firm’s ability to innovate over the past 2.5 years. Secondly, it enables greater *collaboration*: Leaders are concerned that while intra- or small-team collaboration worked reasonably well virtually, cross-team collaboration has faltered. This is one of the major reasons many leaders are making the case to get a majority of the firm in the office on the same days. Thirdly, in-person attendance also allows for more effective *coaching*: 2.5 years into the virtual-only approach, leaders report significant concern with regard to developing their talent. With upward of 30% of their employee population having joined during this time, leaders are understandably concerned—many shared their own personal experiences around the critical importance of an in-person approach to their own development. A common refrain during our discussions was “asset management is an apprenticeship business.” Fourthly, it supports a winning *culture*: Culture seems to be the most difficult concept for leaders to articulate clearly, but almost across the board CEOs felt that something about the work environment has been lost in the last 2.5 years. Cultures are ultimately built on a complex web of personal relationships that hopefully coalesce around shared values and trust with one another. These personal relationship “webs” often engender organizational loyalty as well. In the eyes of many leaders, the virtual work model has done a very poor job of sustaining the cultures that were built over many decades at these firms. This appears to be one of the most important drivers in CEOs’ desire to get back to the office. Finally, leaders believe that resolving *conflict* and driving alignment across an organization is far easier to achieve in an in-person environment. Many leaders report that conflicts and tensions that were once easy to spot and resolve have now festered because the informal communication channels they often rely upon have been lost. Leaders believe that a robust return-to-office agenda is an opportunity to recapture that once-critical aspect of their business cultures.

Figure 3. Five C’s of why in-person

Five C’s of why in-person

Creativity	Collaboration	Coaching	Culture	Conflict resolution
In-person brainstorming yields better innovations more efficiently	*In-person work environment fosters better teamwork*	*Apprenticeship businesses only work well in-person*	*Cultures are founded on personal relationships—must be in-person*	*Driving alignment and resolving conflicts are more easily completed face-to-face*

Our findings suggest that the leaders who will be best able to make the in-office case will be those who can effectively deliver the message and make a compelling and intellectually honest case for in-person work. Successful leaders will recognize and address the positive case for virtual work that can be made in any one of the five C's. For example, the argument can be made that collaboration is actually more effective in a virtual environment as virtual technology creates a more democratic and accessible discussion environment. One could argue that coaching and development is

Leaders will make their case for in-person work with the "five C's"

enhanced in the virtual environment because "apprentices" have gotten more frequent and better access to senior professionals and perhaps clients. Others might argue that virtual brainstorming technology is a more effective medium for creativity and innovation than in-person interactions. Whatever the case to be made is, CEOs and business leaders should be well prepared to address the virtual counterargument for in-person work. Employees are savvy enough to detect bad-faith arguments and superficial messages; effectively influencing them will require compelling arguments stemming from the true benefits of in-person work. The message itself will be as, if not more, important than the medium of communication—frequent town hall meetings, Q&A sessions with firm leadership, employee bulletins or other channels, etc.

Moving forward

While it is difficult to know for certain what success is going to look like moving forward, firms reporting better results in attracting their employees to the office so far assign their success to a number of key common factors:

- **Start as soon as possible**—Firms that began their return to the office relatively early seem to be having more success at getting the in-office experience to stick and have been less vulnerable to allowing the virtual approach to "calcify."
- **Articulate the "why" clearly**—Firms that have proactively and persistently made the case for being in the office have created good dialogues and have adjusted their approach based on those dialogues.
- **Clarify the policy**—Firms that have defined clear policies around being in the office report substantially higher in-office rates. These leadership teams appear to have been more effective at communicating the contours of the return-to-office policy, the behaviors expected (i.e., days per week), and time frame for compliance (i.e., date the policy takes effect).

- **Over-index on the incentives to be in-office**—Free food, frequent happy hours, and fun team get-togethers are often reported as surprisingly simple and effective in attracting employees to the office. Going forward, more substantive incentives such as commuting or childcare subsidies are concepts that some firms are considering.
- **Empower managers**—Successful firms have allowed substantial latitude to their managers to implement the firm's in-office policy in a fair but flexible manner. This includes the ability to make decisions "on the spot" to modify practices that aren't working or to grant an employee or team leeway where appropriate.

The give-and-take between leadership teams and employees around in-person work is now entering a critical new phase

Fall and winter 2022–2023 will likely prove to be a pivotal moment in the history of the asset management industry and its approach to workplace policies. Our research points to a strong majority of leaders who would like to see their workforces back in the office for a much more substantial amount of the workweek than has been the experience of the past 2.5 years. The challenge, of course, is that the virtual model has (1) worked shockingly well in terms of allowing firms to continue their work with clients with little true disruption; and (2) afforded employees a completely different way to work, which, for many, has become a highly attractive work option. The give-and-take between leadership teams and employees around in-person work is now entering a critical new phase.

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