

## ICI VIEWPOINTS

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## Morgan Stanley's James Gorman Builds Pride from the Inside Out

By Todd Bernhardt

A mental model that James Gorman uses in his role as chairman and CEO of Morgan Stanley involves viewing the world as a series of concentric circles: the innermost circle represents the firm itself, while the subsequent circles represent the industry, the economy, and the political environment that a firm operates within. To succeed, one must build an understanding and mastery of each circle, working from the inside out, before moving on to the next. Only then can one move back toward the middle, to where a company's core—its corporate culture—exists. And that, ultimately, is where real strength lies.

Gorman told attendees at the opening of ICI's 60th annual General Membership Meeting (GMM), [being held this year](#) at the Washington Hilton from May 22–24, about the challenges that Morgan Stanley encountered during the financial crisis of a decade ago. Through hard work, perseverance, and timely partnerships, the firm was able to move from survival mode (where Gorman was glad he had a couch in his office, since he, like many of his teammates, was spending nights at work), to “a long period of fragility” where they faced a long list of difficult tactical decisions.

The firm then moved to what he called a “period of healing,” which “enabled us to step back, survey the competitive landscape, and make strategic decisions.” This included an “aggressive restructuring” to reduce risk and “find balance,” which he said led to the next stage: stability.

“During the stability period, we worked hard on reconnection with our employees, and building a culture,” he said. “This enabled us to move to the final stage: strength. Now, we can focus on growth.”

Gorman explained that Morgan Stanley had to take these steps to fully master the inner circle—though it took years—because “it doesn't matter how good the world around you is, if your business isn't.” But he cautioned that mastering the inner circle is not enough. “Even if you're doing a good job on this—focusing on internal challenges—if you ignore the outer circles, you will fail. You need to be able to shift focus and adapt to what the world is presenting to you, all while building your organization.”

### Looking Outward

During his opening speech, and then later during a lively question-and-answer session with Stuart Parker, president and CEO of PGIM Investments, Gorman gave the audience his assessment of where he sees things in those outer circles. Looking at the financial services industry in which Morgan Stanley operates, he took a bullish view, expressing his belief that those who are predicting the end of active management or the coming dominance of robo-advisers are wrong.

“In a world of uncertainty, intellectual capital matters,” he stated emphatically. Active management provides real value, he said, even if lately it's been challenged by stiff competition around fees and by a strong market that has lifted all boats and made it difficult to find alpha. He's also convinced that a combination of digital and human advice solutions will best serve the bulk of investors going forward, even though some do-it-yourself investors will gravitate toward purely digital solutions.

Gorman also is bullish about his firm's asset management business. Though he admitted it's not Morgan Stanley's largest source of revenue, he declared with a grin, “I don't care about size; I care about returns.” He sees great potential in the sector, saying that the firm—which has a “proud history” and “some very talented managers” in its asset management business—is looking to expand where they see customer need, and to build breadth and scale.

Responding to a question from Parker about distribution, Gorman again brought up the need for scale, noting that in past decades the adviser business was very fragmented. But “the old model of the individual selling stocks is gone,” he said. Morgan Stanley’s current model focuses on offering a wide range of wealth management services in order to add value, and he sees other firms doing the same in the retail space.

## Looking at the Markets

Moving outward, Gorman next focused on the economic circle. His message there was one of optimism, pointing to “synchronized growth throughout the world” and emphasizing how rare that this is historically. Yet though “there are a lot of reasons currently to feel positive,” the markets are “nervous” and seem to be “looking for a reason to be disappointed.”

In looking to explain this, he pointed to historical cycles and various analysts who continue to make the case that we’re late in the business cycle. But, he argued, the economy is in good shape, and “there are no predetermined limit to economic cycles.” Recalling an analogy that a friend used, he explained, “We may be in the eighth inning, but we don’t know how many total innings there will be!”

Looking for an answer, he turned to the outermost circle in his mental model: politics. Geopolitically, Gorman said he believed we’re actually in “the best shape since World War II,” despite threats posed by North Korea, Iran, and Russia, and economic challenges presented by China. Where he believes the problem lies is not between countries, but between people. Polarized personal politics, fueled by social and economic issues, have led to a rise in populism that he believes is affecting nations across the globe and spooking markets.

## A Strong Foundation

Having moved to the outside of his concentric-circle model to examine some of the broader issues affecting his firm—as well as everyone in the audience—he once again turned back to Morgan Stanley, to explain how the company’s core principles and its focus on people has provided a strong foundation for growth, even during times of skittish markets.

Gorman feels the company is well-positioned to weather any storms it may face. It has a solid strategic plan that it conveys in a simple, straightforward fashion to its staff, so that they can understand it—and, most important, get behind it. To inform this strategy and keep his finger on the pulse of his 55,000 employees in more than 140 offices around the world, he constantly reaches out to gather input. He’ll typically get 25,000 responses to surveys that the company conducts—and reads every one of them. He also makes a point of running different scenarios by staff at different levels of the company before bringing a proposal before the management committee or the board.

Why does he do all this? Because he knows that employees that feel listened to and feel empowered will do their best work for the firm. Gorman is unabashed in his desire for Morgan Stanley employees to feel pride in what they do. The example he gave to the capacity crowd involved a cocktail party where a Morgan Stanley employee is asked, “What do you do for a living?”

He smiled. “Do they say, ‘I work in financial services,’ or do they say, ‘I work at Morgan Stanley’? I want them to feel good about what they do, just as I want to feel good about what I do,” he explained. “We just play different roles.”

Todd Bernhardt was senior director of public communications at ICI.