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Morgan Stanley CEO James Gorman is the Australian fixing Wall St culture

by Patrick Durkin

Most Australians have never heard of James Gorman. But the long-time chief executive of one of the world's largest investment banks, Morgan Stanley, is among Australia's most successful businessmen to walk the global stage, up there with Rupert Murdoch and better-known success stories such as Frank Lowy, Anthony Pratt and James Packer.

For a man who earns $US27 million ($37 million) a year to run a $US100 billion bank, Gorman isn't one to seek the limelight. But friends say he regularly opens doors for Australians in the United States, such as introducing Malcolm Turnbull to Wall Street heavyweights last year when the then prime minister visited to meet President Donald Trump.

Despite his millions and an American family, Gorman remains quintessentially Australian. His 40th-floor New York office overlooking Times Square is replete with Vegemite, Aboriginal art and memorabilia from his beloved Collingwood Football Club – we discuss his idol Peter Daicos and buying beers at the club's old Victoria Park home. His nine siblings rib him on his regular visits home. "Where did you park your plane? On the front lawn?" they ask.

Raised in Melbourne, Gorman attended the prestigious Catholic boys' school Xavier College and earned a law degree from Melbourne University, before heading to the US to do an MBA and landing a job at McKinsey in New York, where he got to know Wall Street bankers.

He joined Merrill Lynch in 1999, before being poached – at the suggestion of BlackRock CEO Larry Fink – to join Morgan Stanley shortly before the global financial crisis. For six weeks he barely went home, sleeping on the office sofa as the firm fought for survival.

Ten years later, the 60-year-old Gorman is delivering record profits, with two consecutive quarters of $US10 billion-plus revenue for the first time since 2007 as earnings from the bank's equities division surge.

Gorman's career-defining bet to double down on wealth management is also stabilising profits.

Six years ago, when the bank was barely in profit, security trading made up two-thirds of net income. Now wealth management makes up almost 50 per cent. In contrast, arch rival Goldman Sachs has stuck to its traditional investment banking model and this year watched Morgan Stanley's market capitalisation pass it for the first time since 2006.

"It's been an extraordinary decade, starting with living through the financial crisis, being promoted to CEO in an almost-battlefield promotion, and then having to make some very, very difficult choices, the results of which wouldn't be fully known for some years," a reflective Gorman tells *AFR BOSS* magazine from his New York office.

Gorman says he is not going anywhere for at least three years but the bank recently elevated two of its most senior executives, Ted Pick and Franck Petitgas, as succession plans accelerate.

Gorman is also longing to spend more time at home and play a role in Australia's business community.

"I would like to do something for the Australian business community or the government sector to help the country, help the economy and just be part of that. I have a great affection for Australia," he says. "It would be great to take some of the things I have learnt here and try to apply them in some way."

Don't be surprised to see Gorman appointed to an influential role in Australia, given heavyweights such as legendary deal-maker John Wylie, NAB CEO Andrew Thorburn and outgoing Melbourne University vice-chancellor Glyn Davis are among those to sing his praises to

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"He would be one of the most successful Australian executives on the global stage of all time," says Wylie, part of a small group of Aussies in New York during the '80s. "But he is a very modest, humble guy. You can talk about how he has restructured the business, but I think his great legacy is that he got in there and tackled the culture from day one. He was very up front telling people if you don't like not getting a big bonus, then leave."

Glyn Davis says Gorman has a "very low-key, Australian style".

"You know there are 100 people outside his office who need to talk to him but he never seems distracted, he is always relaxed, engaged and in the moment, which is a very attractive quality," he says.

Perhaps one constraint Gorman foresees on his future plans is age. The 10 Gorman siblings, including his sister Katharine Williams, a former Supreme Court of Victoria judge, recently assembled to celebrate Gorman's 60th birthday at a golf resort and winery on Melbourne's Mornington Peninsula.

The night before his birthday on July 14, Gorman passed his annual fitness test – a rowing test of 10 500-metre sprints, each under two minutes, with a one-minute interval.

"One of the things I put on [my top goals] list this year was to pass an annual fitness test on a rowing machine that I have done for the past six years. It's a way to stay physically and mentally in the game," he says.

Gorman, a lean 190cm (six feet three inches), is adamant that if you can stay fit, healthy and hungry as a long-time CEO, you become a better leader.

"If you can stay fit and healthy and keep the energy up, it is like anything – if you have been a CEO for a bunch of years, you are just better at it," he says. "There is a life to these careers. You can't do it forever but if you can maintain the intensity, there is no question your experience base is very broad after doing these roles for a number of years on a global basis.

"I think that helps carry you through the inevitable setbacks that happen. You realise which ones really matter [and] the ones that don't. You get better at judging talent, you hopefully get better at dealing with external constituents, whether it is dealing with the media, regulators or investors. You develop a broader set of skills.

"The catch is you don't want to stay too long so it becomes all about you. Secondly, you have to maintain the intensity. You can't just cruise just because you are in the job. You've still got to do it as if you are in your first year."

Gorman has never been afraid to go against the herd – he is often described as "not your typical investment banker" for traits such as walking home most nights to his place on the Upper East Side of Manhattan – and has pushed back against the Trump agenda, including being the only Wall Street CEO to sign a letter urging Trump to keep the US in the Paris climate change agreement.

His independent approach is perhaps not surprising, given he has always been considered something of an outsider.

Unlike his predecessor, John Mack, and nearly every other head of Morgan Stanley, Gorman had never been an investment banker, abandoning a legal career to study an MBA in the US in 1985 before deciding to stay.

"I was lucky, I guess. I made the decision to go to the US. The more traditional path was probably to the UK in those years and there weren't a lot of Australians who came across in the '80s. I thought I was going to be coming home after I studied at Columbia, then I was given a job at McKinsey in New York and that opened up a lot of avenues."

A big world

Gorman bristles when he is described as a consultant, given he has spent much longer on Wall Street than at McKinsey, but he credits the global consulting firm for the chance to live and work in Tokyo, Hong Kong, Spain, South America and Europe. "It really opened my eyes to the fact it's a very big world out there," he says. "Being single at the time, staying in New York was probably not a bad call."

Gorman first made his mark running Merrill Lynch's troubled brokerage arm, where he delivered record operating profits for two consecutive years then took over the bank's global private client business from 2001.

He was poached by Mack and joined Morgan Stanley in 2006 where he was put in charge of revamping the firm's flagging retail brokerage arm. From there he engineered the deal that made him, the acquisition of Smith Barney from Citigroup, hailed as one of the transformational moments in Morgan Stanley's reinvention.

"In the advent of the financial crisis, we went out and bought a huge wealth management business from Citigroup ... 42,000 people in all," Gorman has previously said. "We like wealth management and we effectively doubled up through this acquisition right when everyone else was shrinking and we are number one or two in the world."

For a long time, critics declared the acquisition a failure, with pure investment bankers dismissive of wealth management as a middling side business. Business articles reported that Gorman's Morgan Stanley had an "identity crisis".

But the risky bet – which has effectively made the bank 50 per cent wealth, 50 per cent investment banking and trading – has turned out to be visionary.

"The experience of Morgan Stanley previously in wealth management had been mixed and there were a lot of people in the institutional and banking side who didn't want us to go at it again, but at some point your job as a leader is ... you can listen to the critics but you have to make the decision," Gorman says. "My judgment call was that it was a great opportunity."

Morgan Stanley is now among the world's largest wealth management businesses, with assets under advice growing from $US546 billion after the GFC to $US2.4 trillion.

"It's a business I've worked in previously, so I know a lot about that business, and I felt it would provide stability because in our case it is spread across 7 million accounts that tend to be very stable," he says.

"The real issue with wealth management is how do you manage it so you don't create compliance issues, so the clients aren't getting ripped off in any form, so the advisers are doing what they are supposed to be doing ... I spent a lot of time when I first came to Morgan Stanley cleaning up the wealth management business they had. We fired 2000 out of 10,000 brokers in my first month on the job because I thought they weren't at the standard they needed to be.

"Over 90 per cent of our branches had compliance issues, so we set up a program that if somebody had a compliance issue in their branch, we would fine the branch manager $US100,000, and if it wasn't fixed by the next month they lost their job.

"That had an immediate impact. People started to think as seriously about the support functions that provide good controls – compliance, audit, risk management – as they did about sales and marketing. It's that balance – it is fine to sell products but they've got to be sold in the right way to the right people at the right price and perform the way they are meant to perform."

Deep thinker

Gorman, who passed his US citizenship test in 2004, avoids speculating too much on why Australian banks are exiting wealth management but his guess is they are retreating to their natural strengths following pressure from politicians and the fallout of the royal commission.

"Every financial institution has to figure out what is its natural space," he says. "Some of the [Australian] banks have naturally been very good, for example, at small-business lending, corporate lending, trade finance, correspondent banking, credit card management, retail deposits, mortgages.

"The Australian banks historically were not big in wealth management until post about 1986, when some of them started getting into it. My guess is they have probably decided that if it is not a critical part of what we do, let's focus on what is critical to what we do."

Gorman's big call to move away from Morgan Stanley's core strength into wealth management makes more sense when you hear how deeply he thinks about strategy and leadership. He wants to become the No. 1 investment bank and wealth manager in the world by the time he retires.

He famously writes down the top 10 things he wants to accomplish each year and keeps a three-year strategy on his desk, toggling among short-, medium- and long-term goals.

Each night before bed, he writes down how each of Morgan Stanley's major businesses around the world has performed that day, despite his family – wife of 25 years Penny and two adult children, including a daughter who made headlines after releasing an album on Spotify – being driven crazy by the ritual.

"One of the hardest things about being a CEO is to be strategic at the same time as being an operator," Gorman says.

"The way I tried to keep that focus is by having a long-term strategy, having an annual set of very specific goals, and then every day before I go to bed, writing down the numbers from our businesses around the world. I have now done that, boy, about 2000 nights. I don't think I've ever missed a night."

Gorman says the handwritten notes sit on a pile on his desk and help him "stay physically and mentally and emotionally connected with what is going on with our businesses around the world".

"It is probably a little obsessive for most people's tastes, but it keeps me in the game on a daily basis. But then you have to be able to extract yourself from that and focus on what is getting done with the institution over the course of the year, and then where are we with our long-term strategy, and are we making the right decisions that are accelerating success under that strategy.

"That is one of the great challenges of corporate leadership – to toggle between very long-term, medium-term and daily activity. This is something I created, an idea I came to very early in my tenure, and it works for me."

Cultural change

Gorman doesn't reveal his goals but says they have switched from harder targets as the bank emerged from the GFC to softer issues such as culture and succession planning.

"At the moment they tend to be sort of softer things, whereas in the previous years they might be to resolve a very large piece of litigation we had with the Department of Justice, to deal with certain investments we had that we needed to write off, to sell certain parts of the business, to finish the integration of Smith Barney, which was very complex. So each year they change in character and go from very hard, concrete decisions to softer, more subtle organisational shifts."

Those who know Gorman say he is driving deep cultural change at the bank, but he insists he had to get the strategy right first.

"For any organisation, particularly one going through difficulty, I think it is a mistake to talk too much about culture at the beginning," he says.

"Folks will not embrace a culture if they are worried about losing their job, or worried about the viability of the business. So the key is to get a strategy in place that makes sense and start executing on it, and once you have done then that you can focus on the cultural values that make institutions great.

"I have often said that strategy puts you in a position to be successful but culture is what ensures enduring success for years and decades, and great companies are true to their culture. Lots of companies can be successful for short periods of time, but the ones that are successful in the long run are the ones that have great culture."

The focus on culture started with Gorman betting that he could slash bonuses after the GFC without sparking an exodus of bankers. He told them in 2010 that if they didn't like it, they should leave. Some – like Morgan Stanley's top bond trader Jack DiMaio, who reportedly demanded tens of millions more in bonuses for his team – were rebuked and did leave.

Team players

Gorman doesn't claim to be a saint on the hot topic of bonuses and pay. He says his bankers are extremely well paid because the firm is doing well and it's a competitive market, but he says his staff need to be team players.

"Shareholders will not tolerate the employees making a lot of money if the shareholders are not doing well," he says. "Nor will we embrace individuals who may be extraordinarily talented but don’t play well in the sandbox – and I have let go some very senior, very successful people around the world because they didn't share our values and were out for themselves.

"You want driven people but you want people who are working as part of a team. You can't escape the fact that the financial sector is one of the highest-paying sectors across industries. In the financial sector there are some real stars, and if you want to have stars in your organisation and you are competing globally, you have to pay them to operate at that level. The best bankers and best traders in the world are truly talented people who many, many companies would like to hire, so you have to pay people very well.

"I have no problem doing that but it has to be consistent with the firm doing well. Will everyone in the general public appreciate bankers who get paid a lot of money? No they won't, and I understand that. You are trying to be responsible members of society, but you are also running a competitive global business."