

Integrative thinking and Lee-Chin's bold AIC strategy

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It was September, 1999, and Michael Lee-Chin had a serious crisis on his hands – the worst of his business career. Lee-Chin had presided over more than 10 years of remarkable growth at his beloved money management firm, AIC Ltd., but now AIC was under withering attack. Its very survival was in doubt.

An admirer of Warren Buffett, Lee-Chin had pursued a strategy with virtually no parallel in the mutual fund business.

The typical mutual fund manager holds 100 to 200 different stocks at any given time and turns over the entire portfolio every 18 months or so. But emulating Buffett's approach of taking long-term stakes in a relative handful of companies, Lee-Chin's AIC Advantage Fund would hold only 10 to 20 stocks and hang onto them, as he says, "more or less forever."

This 'Buy, Hold, and Prosper' philosophy worked brilliantly, and by 1999, assets under management had grown to \$6-billion.

But in 1999, everything was different. Investors were clamouring to buy Internet service providers and dot-coms, day-trading was suddenly respectable, and a mutual fund with a buy-and-hold philosophy and a portfolio of financial, manufacturing and grocery store stocks seemed hopelessly out of step. Many investors lost faith in AIC's approach, and for the first time, the Advantage Fund was suf-

fering substantial net redemptions: more money was flowing out than new money was flowing in.

The low point for Lee-Chin arrived on the morning of Sept. 2, 1999, when he opened his newspaper to find one of the most influential business columnists in Canada trashing AIC's basic business model and calling on investors to get out while their holdings were still worth something. The article predicted that to raise enough cash to meet the tide of redemptions, AIC would have to sell many of Advantage Fund's holdings.

The columnist speculated that the forced asset sales would further depress the price of the stocks held in the fund, creating a downward spiral that would continue until there was, for all intents and purposes, no more AIC.

Lee-Chin remembers that morning well. "I felt awful," he admitted to me. But despite his distress, he sensed that an opportunity lurked within the crisis. Lee-Chin, who is of both Jamaican and Chinese descent, pointed out that "The Chinese character for 'crisis' combines the characters for 'danger' and 'opportunity.'"

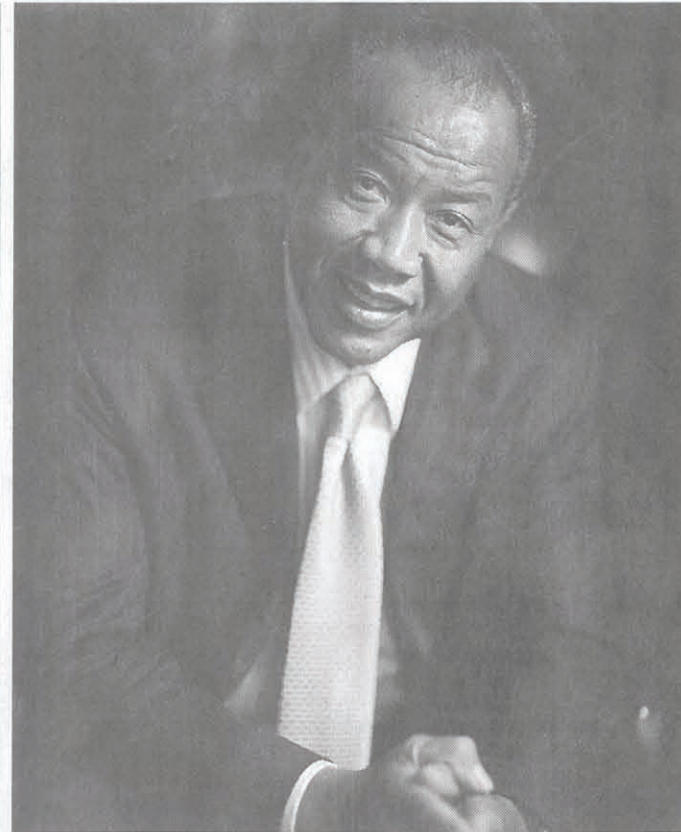
He had to choose, and quickly. Would he sell shares to cover the redemptions, concede that his 'Buy, Hold and Prosper' strategy was fatally flawed, and diversify into the technology stocks that were the flavour of the month? That might save the firm, but at the price of everything he believed in and valued as an investor. Or would he stick to his principles and risk the firm's fall-

ing into a death spiral that might destroy the business he had built virtually from scratch?

Lee-Chin thought hard – but not long – and made his choice. The option he selected was: neither. Or rather, both. "The marketplace was expecting that we had to sell," he told me. "I said, 'What if we didn't sell? What if we turned around and bought? Then what?' We'd turn the assumptions upside-down and upset the whole applecart."

Lee-Chin had little choice but to sell some of the Advantage Fund's holdings to meet redemptions; but then he took a startling tack. The marketplace expected AIC to use any money left over after meeting redemptions to load up on technology stocks. Lee-Chin would confound those expectations. "Okay," he decided, "we're going to identify this one stock, Mackenzie Financial Group, and we're just going to put everything we have into purchasing that one stock." He poured every cent he could into Mackenzie, one of the Advantage Fund's major holdings and a stock he and his staff knew well. "We did everything to buy Mackenzie," he recalled. "The share price went from \$15 to \$18 overnight. The rest is history. Mackenzie was sold [in April, 2001] for \$30. Our unit holders made \$400-million, and we made a handsome return."

His move didn't just save AIC, it helped the firm become Canada's largest privately held mutual fund company, in the process making him a billionaire, and providing him with



AIC Ltd.'s Michael Lee-Chin. CHARLA JONES/THE GLOBE AND MAIL

the wherewithal to buy and turn around the National Commercial Bank, Jamaica's largest bank, and fund philanthropic projects in Jamaica, Canada, and beyond.

The lessons of AIC's cash crisis and Lee-Chin's response to it may seem to have limited application to other business dilemmas. But this bold counterattack wasn't just a spur-of-the-moment gamble by a swashbuckling entrepreneur in response to an unrepeatably set of circumstances. The

thinking process that he followed is, I believe, common to some of the most successful people in the business world today.

I have spent the past 15 years, first as a management consultant and then as the dean of a business school, studying leaders with exemplary success records, trying to discern a shared theme running through their successes. Over the past six years, I have interviewed more than 50 such leaders, and as I listened to

them, a common theme emerged with striking clarity. These leaders share at least one trait: they have the predisposition and the capacity to hold two diametrically-opposed ideas in their heads. And then, without panicking or simply settling for one alternative or the other, they are able to produce a synthesis that is superior to either opposing idea.

Integrative Thinking is my term for this process that is the hallmark of exceptional businesses and the people who run them.

I believe that we were born with an "opposable mind" that we can use to hold two conflicting ideas in constructive tension, and that we can use that tension to think our way through to a new and superior idea.

And just as we can develop and refine the skill with which we employ our opposable thumbs to perform tasks that once seemed impossible, I'm convinced we can also, with patient practice, develop the ability to use our opposable minds to find solutions that once appeared beyond the reach of our imaginations.

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