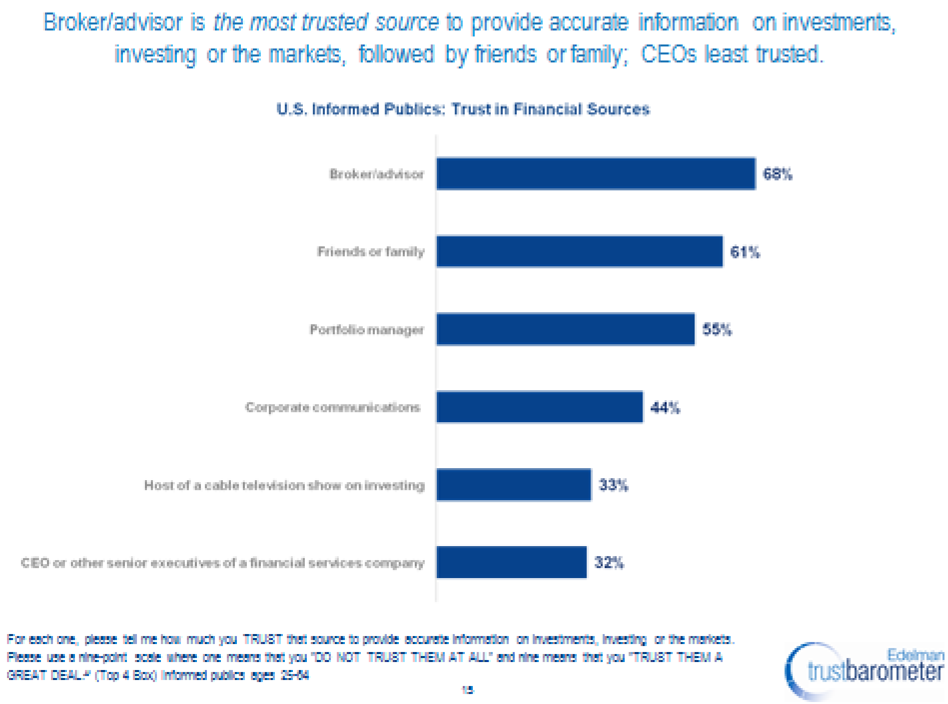
April 22, 2015

LOL Journal: Give the CEO a break!

Investment CEOs are easy choices for the Rodney Dangerfield "I-don't-get-no-respect" award. Despite long hours in a tough environment, they still get the lowest ratings from Edelman in the Trust Survey:




Ouch. CEOs rank even lower than "Hosts of a cable television show on investing." Read: Jim Cramer. I'm not here to defend ALL investment CEOs because many of them do deserve this bad rating. But the CEOs that FCG deals with are mainly good guys/gals with intact consciences, who are working hard to achieve the goals FCG described in the recent white paper: The Investment Challenge. *White Paper link*

This week Keith and I met with two CEOs of larger organizations to review their firm's culture assessment. The purpose of these assessments is to help CEOs understand their current culture and then make decisions about follow-up steps. The data are collected via on-line survey (15 minutes) and face-to-face interviews with leaders (solo) and focus groups (5-8 in the room). The report that we produce is massive—250 pages—and FCG's job is to highlight the key elements so that the information is both understandable and actionable. This is where this week's title—show a little love for CEOs—comes into play. It's a big job with so many variables, and yet the staff comments (from the survey and from the interviews) suggest that there is almost no appreciation on their part for the size of the challenge. My goal in this journal entry is to heighten the appreciation: CEOs face a lot of really tough tradeoffs. If staff members understood this more fully, they might have a little compassion for the boss. It's the old: "if you think it's so easy, try it yourself!" Many of the complaining staff members would do a chest-grab pretty quickly if they assumed the role of CEO! (As one CIO said as he assumed the new role of CEO, "My confidence peaked the day of the announcement. After that it was all downhill!")

So, here are the seven toughest issues that came up in both debriefs this last week:

1. Embracing and practicing "Excellence/Continuous Improvement" as a value in the culture.
2. Understanding and responding to the demand for "leadership development/Mentoring" within each organization. What are new workers asking for?
3. Short term vs. Long term goals. No surprise here; all firms wrestle with this tradeoff.
4. Investment-centric vs. sales-centric organization. Which leads and which follows?
5. Transparency. How much is enough? What does "open communication" mean?
6. Debate. Most firms wrestle with "polite/nice" winning out over "challenging/honest."
7. Flexibility. Work/life balance and flexible work arrangements are becoming ever more important.

**Excellence/Continuous Improvement**: the quest for finding an edge and staying ahead.

Both of the firms in question identified this value Excellence/CI as a top aspirational value. In other words, the data suggest: we are not practicing it a lot now but we should be! In some ways, CEOs should take comfort in the survey results because it is the STAFF telling them that we need to raise our game. The challenge for CEOs and the executive teams is determining: How? Most firms are already putting in long hours, so THAT is not the answer: work harder. Rather CEOs must become thoughtful and creative around specific techniques for improving productivity and results. One CEO in our debrief went immediately to meetings. "We spend a lot of time in meetings and it is not optimal." FCG promised to provide a "best practices" sheet for meetings. Basics include: Send an agenda in advance. Include the purpose and desired outcomes in the agenda. Describe pre-work that will allow attendees to be fully prepared.

Additionally, there is a growing body of research on continuous improvement with excellent books like:

- **The Talent Code** by Dan Coyle
- **Development of Professional Expertise** by K. Anders Ericsson
- **Mindset** by Carol Dweck
- **Practice Perfect** by Doug Lemov
- **Outliers** by Malcolm Gladwell
- **Getting Things Done** by David Allen

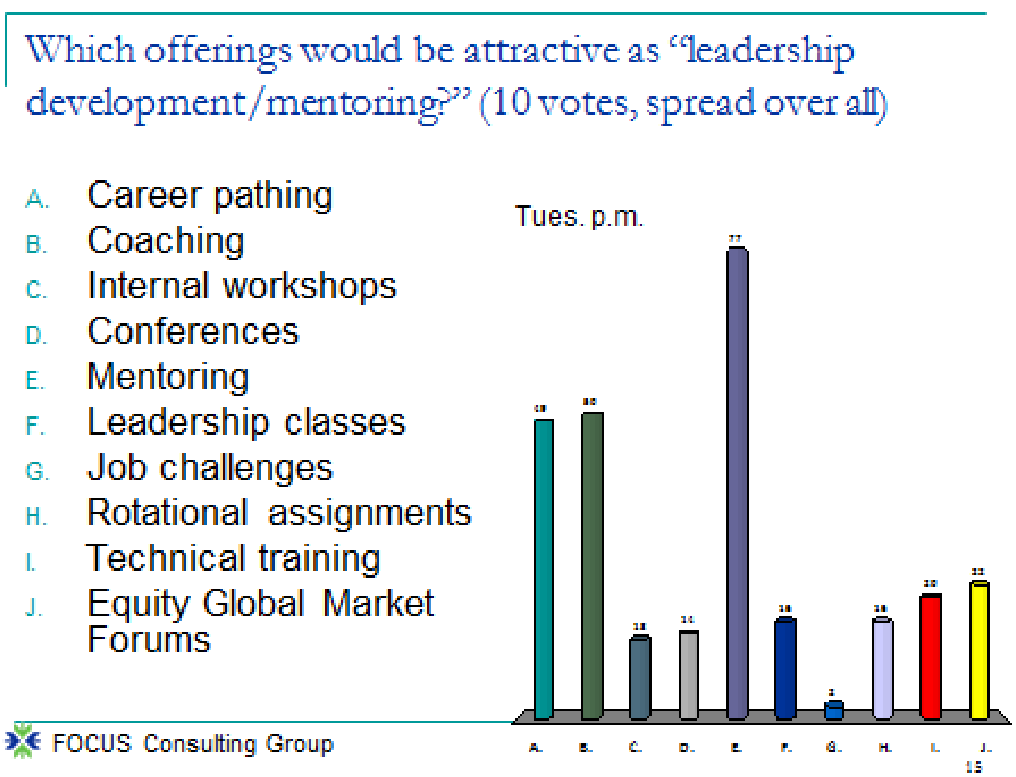
Each of these books offers great ideas about how to raise one's game. The subtitle of Lemov's book is "42 Rules for Getting Better at Getting Better." And the really good news about getting better is that Dan Pink (in **Drive**) reassures us that we want to get better naturally. He calls it the drive for Mastery. As knowledge workers, we naturally want to perfect our craft. So, analysts don't need to be pushed and goaded into being better analysts. They just need guidance and mentoring as to how. Which brings us to the next thorny issue for CEOs: leadership development/mentoring.

**<u>Leadership development/Mentoring</u>**: the quest for guidance and career planning

Look at the results from the two firms in question, plus the Focus Elite (9 firms that we track as excellent in culture):

| Leadership development/Mentoring | % responses for "Aspirational culture" | % responses for "Existing culture" | Gap between Aspirational & Existing |
|---|---|---|---|
| Firm A | 36% | 9% | 27% |
| Firm B | 36% | 2% | 34% |
| Focus Elite firms (9) | 28% | 8% | 20% |

For the two firms (A and B) and for the Focus Elite, the gap between what they "have" and what they "want" is big. And these results are consistent with the industry at large. In fact, FCG has seen this gap so often that we've researched what staff members mean when they say, "we want more leadership development and mentoring." Here is a sample vote from a room of 30 staff members:



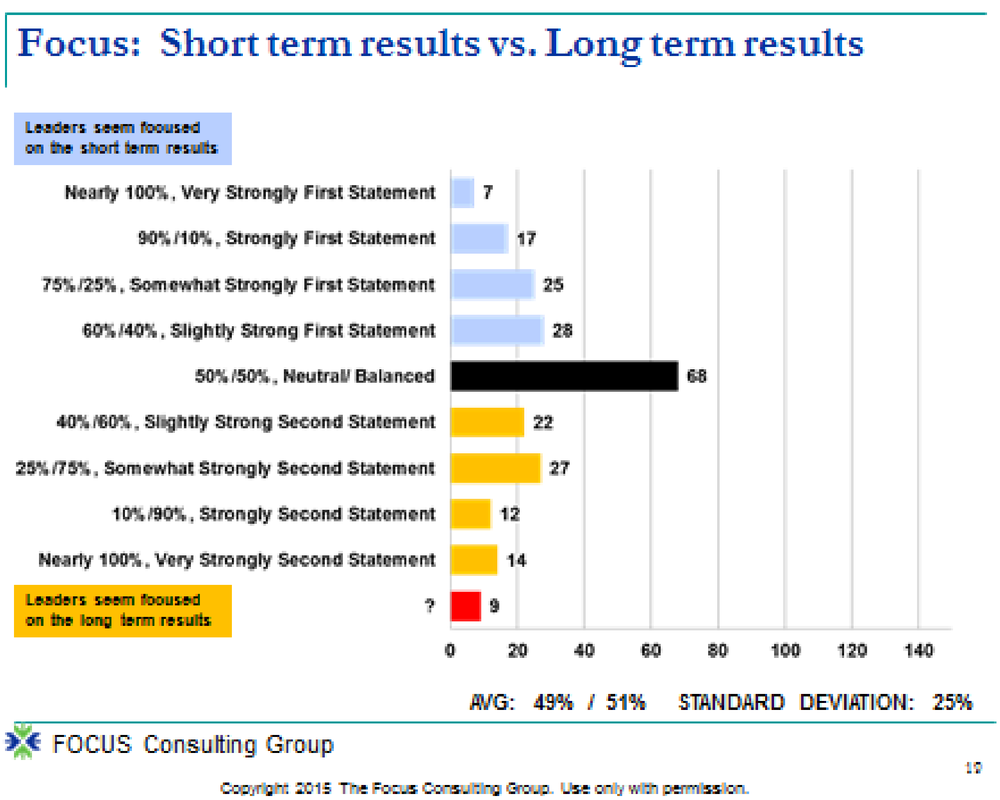
Consistently, we see the three top vote-getters repeated in our data collection. Younger staff members want:

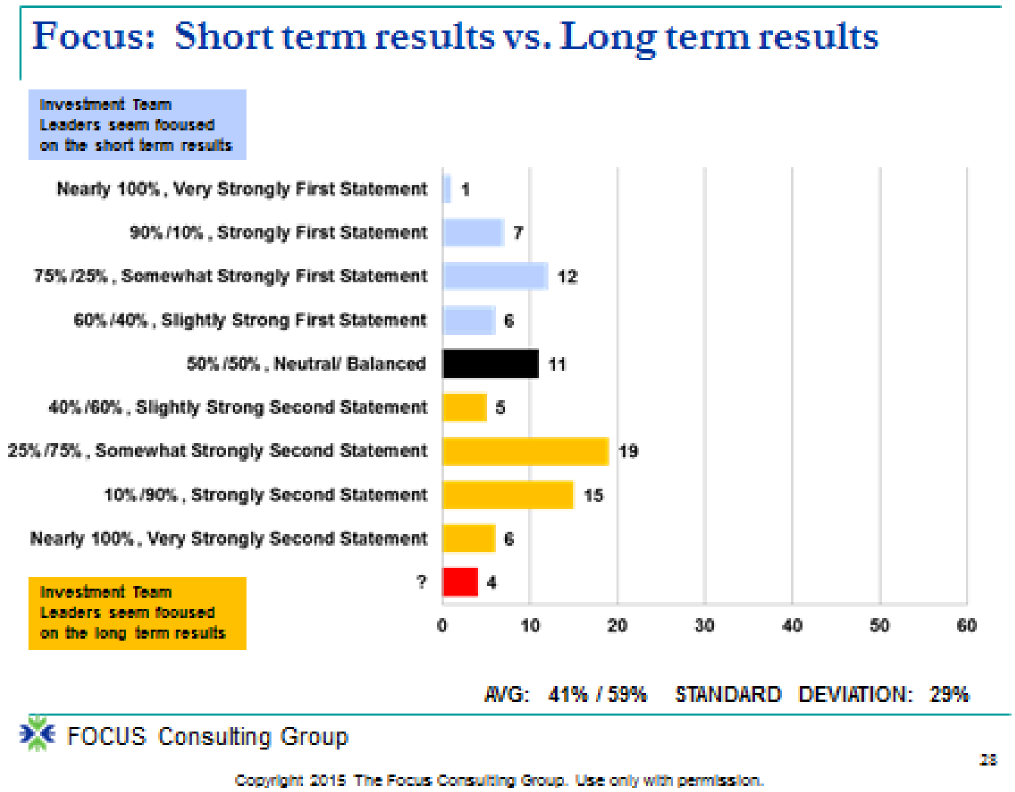
1. Clear career paths. What are the steps to the next level? How do I advance? What is the time frame? (FCG has borrowed from the martial arts and developed "belts" for various job categories, like "analyst.")
2. Mentoring. How do I get assigned a mentor (who is NOT my boss) and who can help me understand the ropes in this company?
3. Coaching. How do I get access to professional coaching (from an outside expert), who can help me learn and polish my leadership skills?

Smart CEOs—like the two we just met with—are taking seriously this notion that younger workers want to be developed. In fact, one of the CEOs in question said, "this gap was the most surprising and important bit of information from the whole survey."

**<u>Short Term vs. Long Term</u>**: how does the firm balance these two time frames?

All businesses everywhere face this dilemma: balancing short and long term needs. In the investment industry it is particularly fierce because firms are under intense pressure to produce quarterly results. Both of the firms in question are public and therefore at the mercy of shareholders. And yet each CEO has done a good job of balancing short and long term, as you can see in the survey results below:

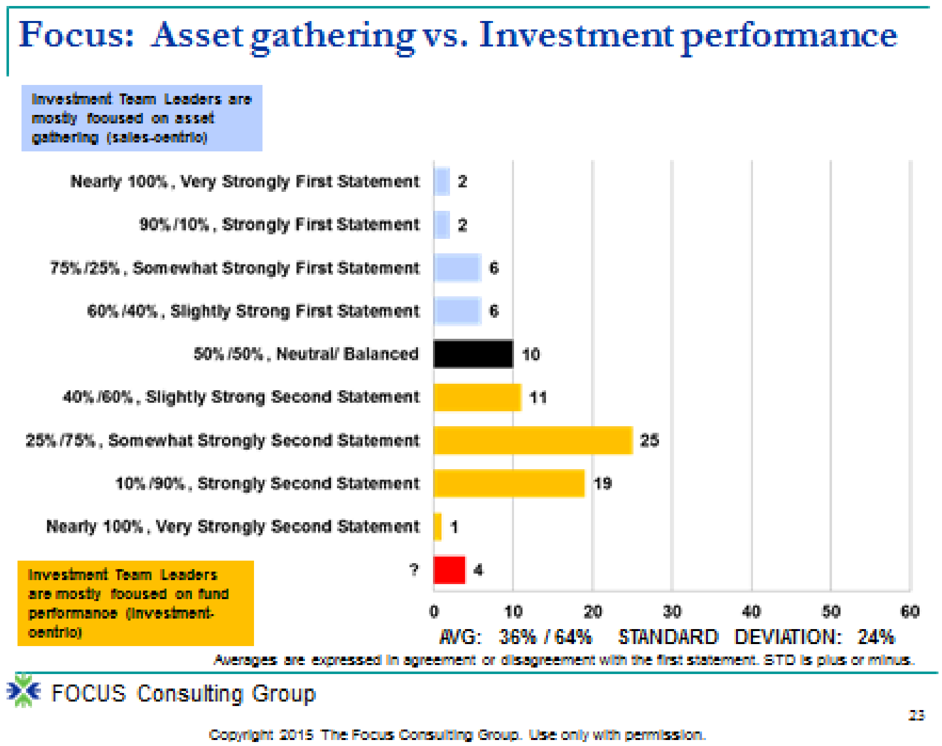


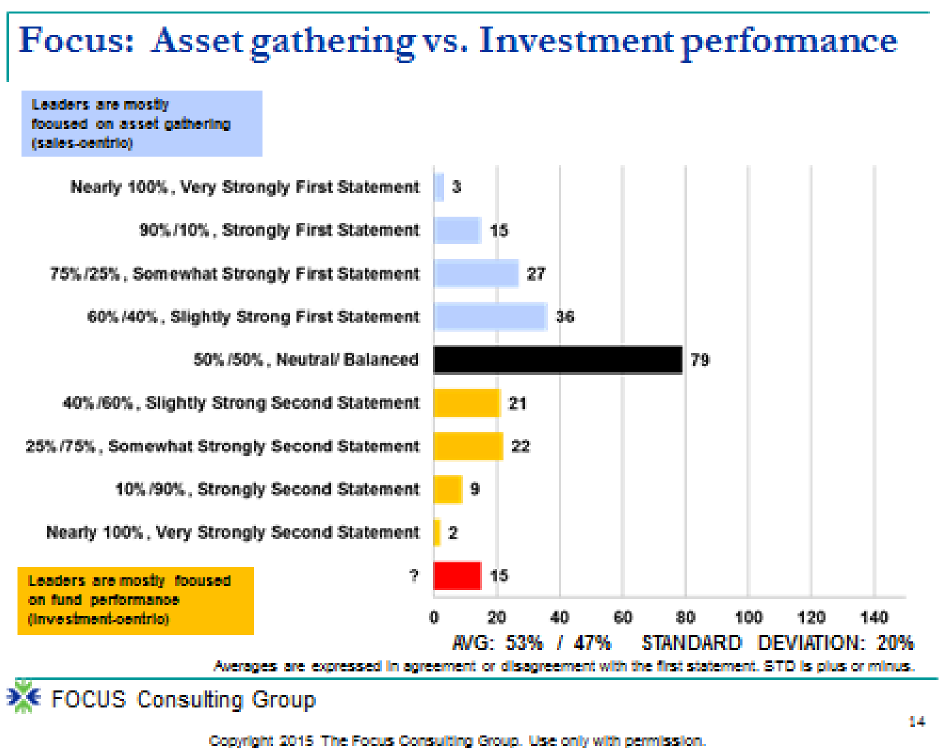



As you can see in the descriptions in the blue and gold boxes, respondents are asked if firm leaders are more focused on short or long term results. To their credit, these CEOs have avoided heavy "blue" voting. The staff is saying, "Our CEO has not caved in to the short term pressures." They are balancing the demands of different masters.

**Investment-centric vs. Sales-centric**: do leaders favor investment performance over asset gathering?

Here is another very tough balance that leaders must strike. The firms must grow their assets in order to keep shareholders happy and employees happy (with opportunities to advance in the firm), but they must also perform in order to keep clients happy. One story in particular sums up this friction. Over lunch I asked a CIO who had recently resigned if there was a critical moment in his decision. He said, "Yes. A client was meeting with our CEO and offering to put $200 million to work in our flagship fund. I had told the CEO earlier that we could not accept any more funds into that portfolio without damaging performance. Our CEO shook his head and told the client, sorry that portfolio is capped. Then the client said, how about $400 million? And our CEO said, "Done!" That was the last straw. We showed we had no integrity around our investment process!" FCG acknowledges that both goals are legitimate: to perform well and to grow. We applaud the CEOs who have skewed the results towards performance over growth. In the case of the two firms we are highlighting, one met that standard, the other did not:

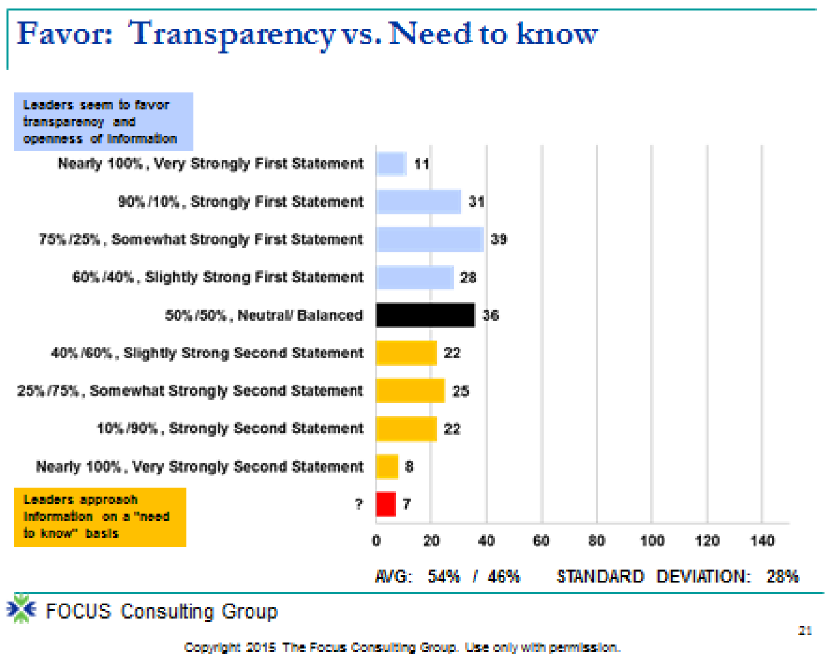


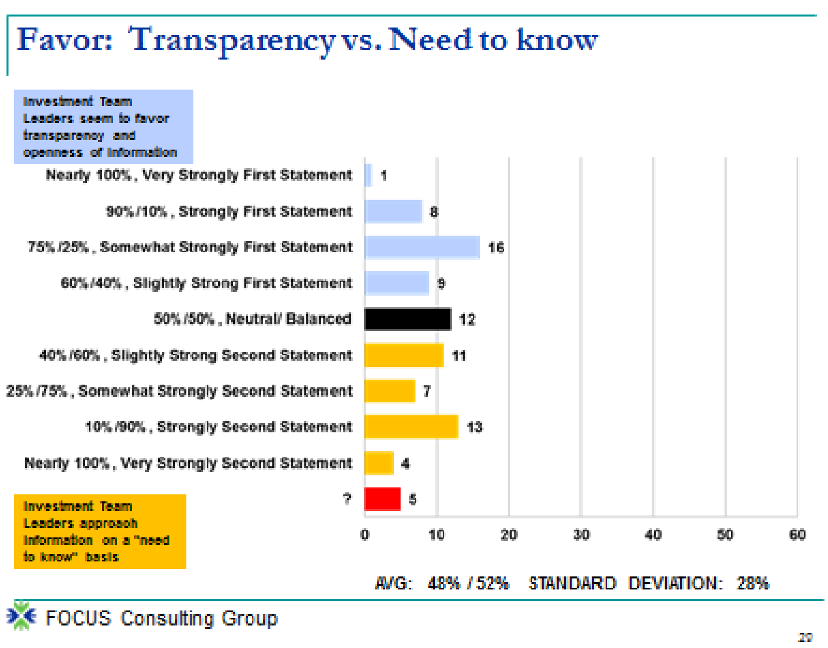




Both are in an acceptable range, but the second one indicates a bias towards growing assets over providing performance. In fact, the CIO of that firm agrees: our flagship fund has gotten too big.

**<u>Transparency</u>**: do we practice open communication with our staff?

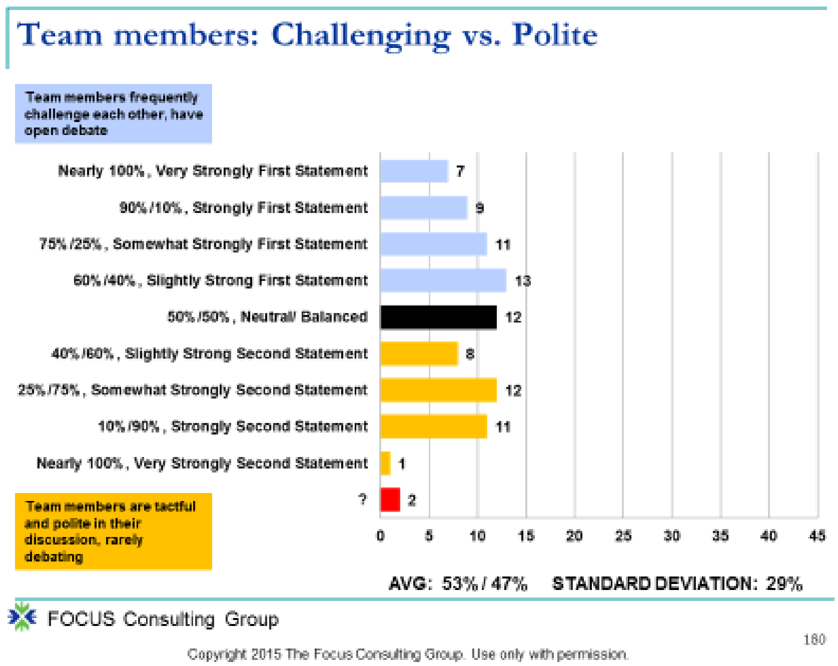
In FCG's experience we see repeatedly that open communication builds trust and performance over time. We are strong proponents of erring on the side of more transparency. Many investment cultures have remnants of the old "command-and-control" management style in their cultures. Wise CEOs develop a communication strategy that allows them to share all the important information with their staff, avoiding any sense that they are "keeping secrets" or operating on a "need to know" basis. Both of the firms in this review would benefit from more transparency:

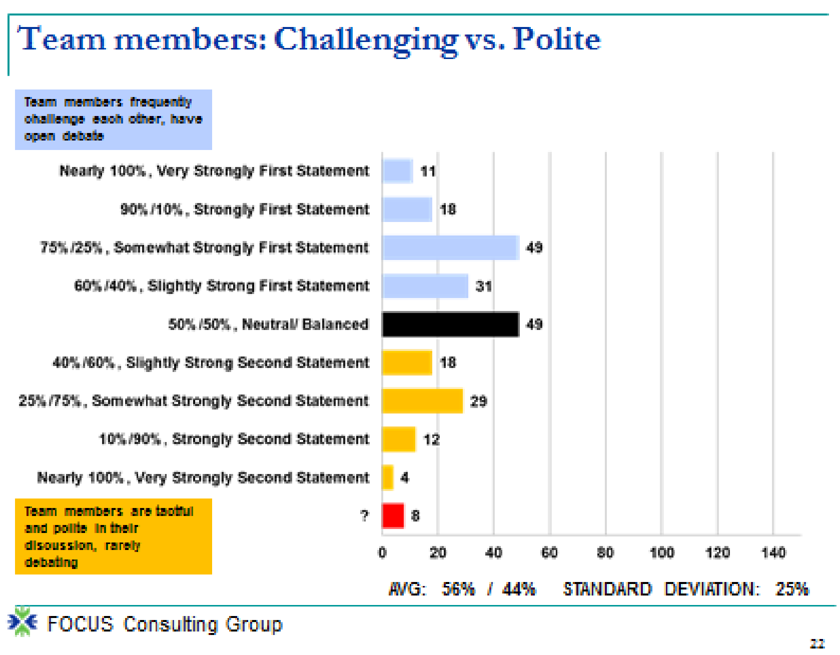


**Open and productive debate**: have leaders created a culture in which staff members are encouraged to challenge ideas, even of the leaders?

Great investment firms must be learning organizations. (*see my LOL* on **Learn or Die** by Ed Hess) They must foster an environment where the ego takes a back seat to learning and growing. Very few investment firms have achieved this higher standard. As you can see in the survey results below, each of these firms can improve on this dimension.

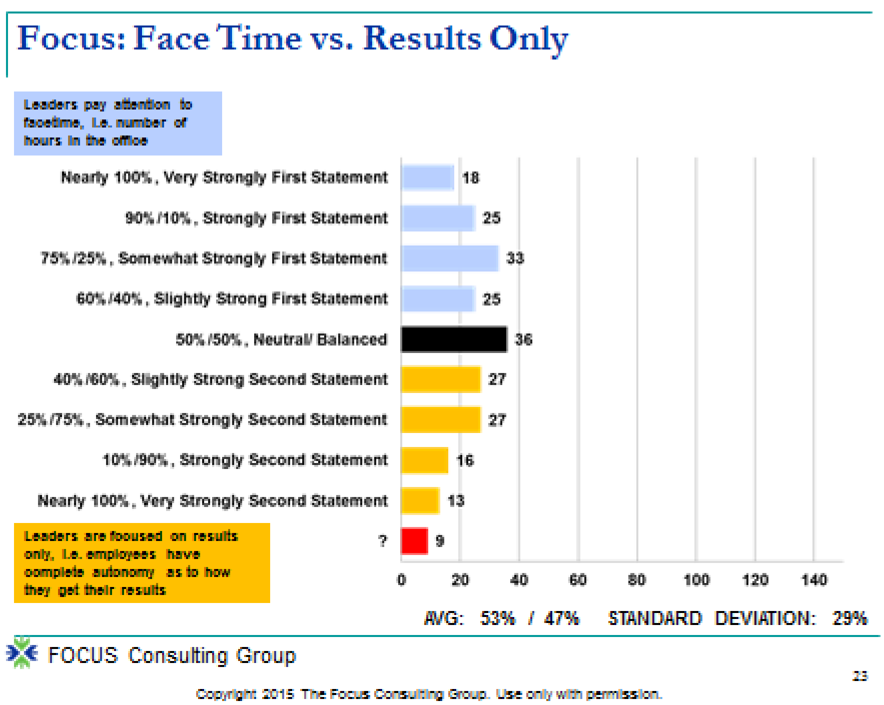


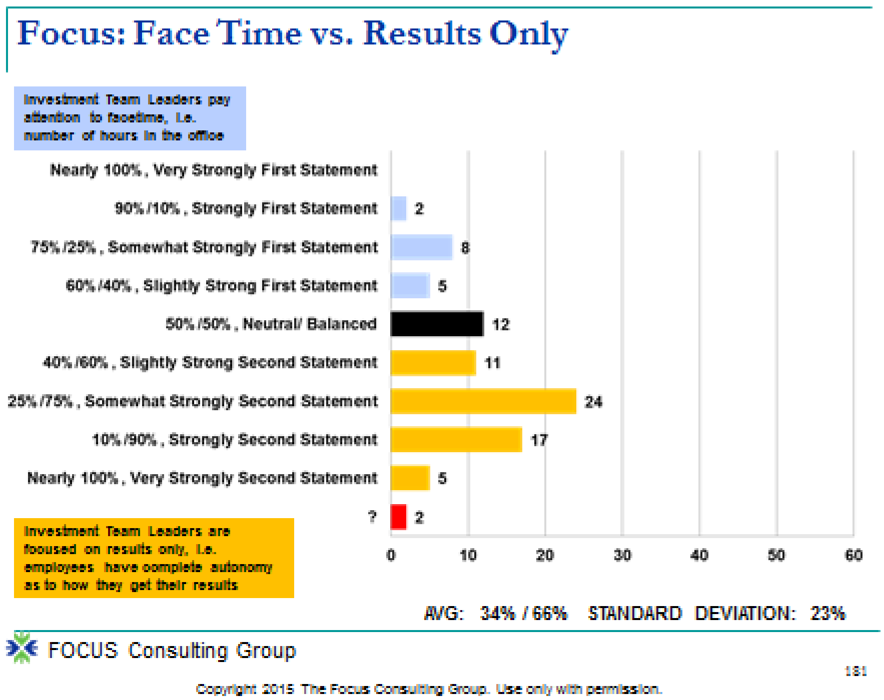



CEOs and their leadership teams must demonstrate candor among themselves and reward it in their staffs. It is human nature to "play it safe," so staff members must see over and over that leaders reward taking a risk, namely, challenging the status quo. Mind you, language is very important. There is a huge difference between saying, "That's a dumb idea" and "I see it differently." The former is disrespectful, while the latter is not. Good leaders will frequently ask during a discussion, "Does anyone see it differently?" If no one speaks up, the leader could push it further by saying, "I'd like someone to play devil's advocate. Argue the other side of this view." If the group is still hesitant, then ask them to write down a different view. Once they've written it, ask: "will someone share what they've written?" Too many leaders we know take the easy way out by blaming the staff members: "they don't have the courage to speak up!" Good CEOs accept the challenge of making it safe to have open debate. If your team is NOT having open debate, then get curious about how you CAN get open debate! Don't just blame them.

**Flexible work environment**: workers are trusted to get results in whatever fashion they choose.

Increasingly FCG sees that younger workers in firms want to be allowed the autonomy to work where they want, when they want, and how they want. As you can see in the survey results, one of the firms we're highlighting has done a good job of giving staff members this autonomy, while the other has a ways to go.






FCG recommends that firms move in the direction of this second firm: give employees clear instructions as to what is expected of them (i.e. goals), and then turn them loose to accomplish those goals. FCG further recommends weekly check-ins with each employee to check for progress and make "course corrections" where needed. Dan Pink showed clearly in his book **Drive** that knowledge workers (read: YOUR staff members) love autonomy. FCG has seen this repeatedly in high performing firms. In fact, for many workers more autonomy has a cash value. Smart CEOs understand that staff members can be very happy at work if they are given lots of autonomy and appreciation combined with "fair" (not excessive) comp packages. Many roles in the investment firm—analyst, PM, strategist, sales—lend themselves nicely to flexible arrangements. Aside from Pink's work, the authorities on this subject are Ressler and Thompson who wrote, **Why Work Sucks and How to Fix it.**

**So, give the CEO a break**: could you handle all of these issues more skillfully?

In reading through the pages and pages of comments that accompany the survey results, we are struck by the lack of appreciation for how tough it is to run an investment firm. We're not defending CEOs who are flat out horrible leaders. But the two CEOs in this case are both smart, decent men who genuinely care about the future of their firms. And have very tough decisions to make. Speaking just for myself, I know I would have a difficult time improving on the job that each of them is doing. Hell, I'd probably be hyperventilating by the end of the first day. So, give the CEO a break. You don't have to give him a big old bear hug, but don't bust his chops quite so hard. And maybe, just maybe, given him/her a high five from time to time.

Curiously yours,

JW