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LOL: Culture case study: Moving from Good to Great.

Last LOL I wrote about two investment firms who are on the culture journey from good to great. I asked readers to have some empathy for CEO’s who are faced with the tough challenge of building a great culture. I tried to show some of the difficult choices facing these CEO’s. (Needless to say, my inbox lit up with emails from CEO’s telling me, “Now, THAT is the kind of good writing we need to see more of!” 😊)

In this LOL, I will compare a best-in-class culture with the two that I described previously. I do this not to embarrass the “good” firms—who are mid-way through the journey—but to encourage them that it is possible to reach the goal of “great.” The best-in-class firm—Disciplined Growth Investors (DGI) in Minneapolis—has been working diligently over the years to strengthen and improve their culture. It didn’t come easily. They’ve had their challenges. But their CEO, Fred Martin, is committed to doing whatever it takes to achieve the dual success of: 1) excellent performance for the clients, and 2) excellent work environment (culture) for the employees. Fred believes if you take good care of clients and employees, you will inevitably take good care of owners as well. (As Fred is the majority shareholder of DGI, he has a real interest in proving this theory true! 😊) In what follows, I will describe DGI’s culture results vs. the other two firms and provide my explanation for why DGI has achieved success. Let’s start with some metrics. How have these three firms done based on these factors:

Factor	DGI	Firm A	Firm B	Industry average (90 firms)
<b>Coherence</b> (How much do employees rally around same values. 100% is perfect)	49%	35%	34%	40%
<b>Sludge</b> (How much bad behavior, like gossip and blame, is in the culture. Lower is better)	1%	15%	19%	10%
<b>Effective Decision Making</b> (% of staff that agrees the culture supports effecting decision making)	94%	64%	38%	69%
<b>Loyalty/Engagement</b> (3’s & 4’s on a 4 point scale)	100%	61%	74%	80%
<b>Attract/Retain Top Talent</b> (% of staff that agree the firm can attract & retain top talent)	94%	84%	90%	81%
<b>Firm Success</b> (% of staff rating firm in top quintile vs. competitors)	100%	66%	50%	60%

“Coherence” measures the strength of the culture. To what degree is the staff rallying around the same set of positive cultural values and behaviors? The highest possible score is 100%, meaning that the staff

perfectly lines up around the same values/behaviors. The highest score recorded by FCG is 63%. DGI scored significantly higher than the industry average, and higher than firms A and B.

Firms A and B are lower than the industry average because this was their first survey. The industry includes many firms who have been working on their culture and taken the culture survey several times. The average for “first timers” such as A and B is 32%. What’s needed to improve the score for A and B? Each CEO in concert with the executive committee must decide which values are core and then communicate them to the entire staff. They must also agree and commit to “walking the talk.” DGI’s survey reveals a very clear list of values:

- Ethical/Integrity
- Compassion/Caring
- Balance (Home/Work)
- Client Satisfaction
- Long-term Perspective/Vision
- Excellence/Continuous Improvement
- Collaboration/Teamwork
- Candor/Honesty/Open

And when asked to rank order these values, the staff results were as follows:

1. Ethical/Integrity
2. Client Satisfaction
3. Compassion/Caring

FCG believes that this is the “correct” answer for investment firms. The first lens that must be used in decision making must be, “Is it ethical? Does it pass the integrity test?” The second lens is, “Does it serve the client?” (When you get these two reversed, as Andersen did with Enron, it can bankrupt the entire firm.) The third highest ranking value for DGI—Compassion/Caring—is unique in the industry. 70% of DGI’s staff chose Compassion/Caring as a core value at the firm. Whereas, in the industry only 7% of investment professionals choose it as a core value.

In trying to make sense of this third value—Compassion/Caring—it is helpful to know a bit about CEO Fred Martin. The book that is foundational for Fred in his leadership is called, [Moral Intelligence: Enhancing Business Performance & Leadership Success](#) (Lennick & Kiel). The authors assert that there are certain principles that are universal and hold true for people in all cultures everywhere. Through their extensive research, they arrive at four that they claim are “vital for sustained personal and organizational success:”

- Integrity
- Responsibility
- Compassion
- Forgiveness

When I asked Fred why these are considered principles, he responded, “Because they are like gravity. If you jump out a window, you will fall to the earth. If you violate these principles repeatedly over time, your firm will fall apart.” So, in Fred’s mind these are the core principles that he practices and encourages at DGI. An example: when one of the staff members encountered personal difficulties (illness in the family), Fred encouraged that person to be candid with team mates. (The more typical behavior is to hide this information so as not to appear weak or needy.) The response of the team was overwhelmingly to support the team member in question. Specifically, they said, “take all the time you need at home. We’ve got you covered.” Clearly the staff was demonstrating the principle of compassion. Trust was enhanced at the firm when the staff’s response was: “we’ve got your back.”

Fred went on to explain that good leaders practice the first two principles really well: integrity and responsibility. Whereas, in his view, outstanding leaders practice all four. From the perspective of personality types, Fred is echoing the wisdom of Myers-Briggs theory: that good leaders operate as both “Thinkers” and “Feelers.” They integrate the head (T) and the heart (F) in their leadership. Thinking leaders can become overly focused on tasks and results, leaving the staff overworked and underappreciated. Feeling leaders can be overly concerned with harmony and relationships, resulting in complacency, poor accountability, and inferior work product. (FCG is fond of saying that we try to make all our teachings “crayon simple.” The crayon simple version of this leadership balance is represented by the leader who must choose between the open hand (compassion/forgiveness) and the closed fist (integrity/responsibility). Try this experiment right now: open one of your hands, while making a fist with the other. Now alternate between the feeling of the two hands: open and receptive vs. firm and deliberate. Those are your basic leadership tools. Knowing when to use each is wisdom.)

Let’s look at more data from the last LOL. I showed the “continuum” charts for the choices that all firms face: long-term vs. short-term, sales-centric vs. investment-centric, collaborative vs. star-based. In the charts below, note that DGI is remarkably aligned on these choices. Fred has communicated clearly to his senior team and the larger staff where DGI stands on these issues. They are not confused about who they are or how they operate.

In the charts below, the employees at each firm were asked to place their firm on a continuum which ranges from the extreme of one factor (like Short term focus) to the opposite extreme (long term focus). When FCG reviews the survey results we look for alignment around one view. In most cases there is not a “correct” view, a range of choices. In average to good companies, employees have a variety of views and are un-aligned. In great companies, leaders have discussed and agreed upon their firm’s approach and then communicated it to the staff. Note the close alignment for the DGI staff.

DGI



Firm A



Firm B



Nearly all the DGI staff understand that the firm is run with long-term perspective (which was also seen in their choice of core values: Long term perspective/Vision is a core value.) Now consider the next continuum, the all-important question: are we more interested in growing AUM or in delivering top performance? Here is how the three firms in question respond to this choice:

DGI



Firm A



Firm B



Again, we see that DGI has established great clarity about the firm’s mission: first and foremost we take care of the client by providing top performance. (Which they have)

The next continuum question explores the question of communication: how transparent are we? Do we share information freely (blue), or do we operate more on a “need to know” basis (gold)? DGI is the most transparent of the three:

DGI



Firm A



Firm B



Another challenge for all investment firms is candor. Are staff members willing to debate and confront one another? (blue) Or do they value harmony and diplomacy more? (gold) Here is a place where DGI has shown skillful leadership. Despite their commitment to compassion, which suggests kindness and harmony (read: less candor), they are still willing to challenge each other. I would argue that DGI's candor is the result of high trust and respect levels. Firms A and B have work to do in this area:

DGI



Firm A

Firm B



The final comparison involves worker autonomy. Dan Pink in Drive makes a compelling case for flexible work styles. Give staff members the freedom to choose how, where and when they want to do their work. In FCG’s client engagements we see this desire for autonomy in the younger generations especially. Gen X and Y are very interested in work/life balance. Firms that are resistant to this balance run the risk of losing talent. Our last continuum asks if a firm’s leaders favor facetime and rigid schedules (blue) or autonomy: get the results however you wish (gold).

DGI



Firm A



Firm B



Clearly, DGI favors autonomy more than the other two firms. Fred is very aware of the power of autonomy and what it means to have a “virtual office.” We discussed in some detail the new technologies for communicating and how social media plays a role in the investment scene today. Despite Fred’s chronological age—68—he is young in spirit and respects the different values that younger workers bring to the job.

As evidence that Fred is open to new ideas, consider a recent initiative at the firm called “Project Bold.” Here’s a description of their project:

“At Disciplined Growth Investors we have a close-knit team that is curious, passionate and a little eccentric. In their own ways, they each exemplify the qualities that make DGI unique. In order to

recognize and encourage what our people were already doing, we created Project Bold. DGI sponsors employees as they make bold moves in their own lives. To try something new. To stare down the unknown until it hands over its secrets. To ride no coat tails. To rest on no laurels.”

All of the employees were given \$2,000 by the firm with the condition that they had to use the money to stretch themselves, to challenge themselves. Here is one of the stories from employees:

Prior to her Bold Initiative, Cindy had never traveled without her husband. Moreover, except for a short trip to Canada, Cindy had never traveled outside the United States. So, a nine-day trip to Costa Rica, alone, was a somewhat novel concept for her.

Although she was a little anxious, Cindy was able to pull a plan together. She managed every step: passports, booking, airports, taxis, hotels, meals and activities. From her doorstep in Minnesota to Costa Rica and back, she made it through every step on her own.

While in Costa Rica, Cindy biked trails, rafted the Reventazon River, visited a jaguar refuge, took a bird-watching tour, road a zip-line across a wooded ravine, and trudged through the Manzanillo nature area on a guided hike. “The sights and sounds in Costa Rica are absolutely amazing. My senses were overloaded the entire time I was there.”

Although Cindy speaks no Spanish, she was able to rely on the kindness of strangers. “I met a lot of people from around the world. There was a spirit of helpfulness that I didn’t realize was out there.”

Overall, the experience was very empowering. “Being by myself gave me a whole different perspective. It wasn’t something I would have done before, but now I realize it’s something I can do.”

FCG has high regard for Fred and his team at DGI. If asked to sum up the secrets of their success, we would go back to Fred and his personal commitment to the core principles:

- Integrity
- Responsibility
- Compassion
- Forgiveness

Each of these principles folds into the behaviors of high performing teams that FCG has written and spoken about over the years. Integrity is about making and keeping clear agreements, having your words and actions line up. Responsibility is about having a conscience: taking responsibility for your actions, not blaming others or hiding. Compassion is about empathy, putting yourself in someone else’s place. Showing that you care about your fellow workers. Establishing connection and a sense of “we’re all in this together.” Forgiveness recognizes that none of us is perfect. We all make mistakes. Can we forgive ourselves and our colleagues and allow for fresh starts. FCG calls this the “drift and shift” model.

We drift off of our commitments, notice it (or get feedback!), and then recommit to those original commitments.

Firms A and B should take heart that the goal is reachable, as DGI has shown. The main ingredient to success is commitment. In our view, that is the secret to DGI's success.

Remaining curious,

JW