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LOL Journal: Breadheads, Workability, and Red X's

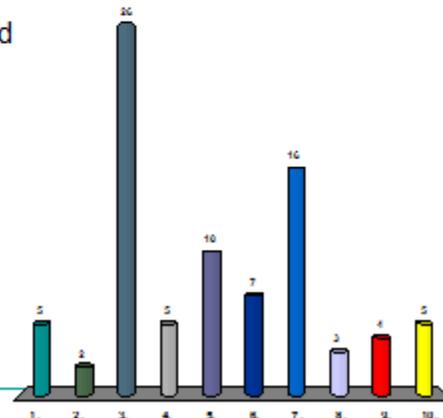
Do you know the term “breadheads”? It refers to people who are working solely for the money. I like it because it allows us to hang a catchy moniker on the myth that money is the main driver in the investment world. It's not. Here's another bit of evidence debunking the “The Breadhead Myth” (i.e. that it's “all about the money.”) The Economist magazine this week reports “less than 5% of MBA students said that higher pay was their most important consideration when deciding to enroll at business school, far behind such factors as “to open new career opportunities” (58%) or “personal development” (15%).” At FCG we see a lot of hiring mistakes in which candidates tip their hand—show that money is their key driver—and the firms still hire them. Don't. Wait for a talented individual who loves the work and shows real skill. They are the keepers. Not the breadheads.

One of the benefits of frequent speaking engagements is that we get to collect voting data (i.e. from our use of real-time clicker polls) from investment audiences. Over and over again in these votes, we see this result concerning the benefits of culture:

### Top benefits of a strong culture are... (2 choices)

1. Attract top talent
2. Effective hiring
3. Retain top talent
4. Promote and compensate based on values
5. Mentor and coach more effectively.
6. Better weather the tough times
7. Improved decision making
8. Stronger branding
9. Lead change more effectively
10. Client satisfaction

 FOCUS Consulting Group



97% of investment audiences say that culture is important to success, and overwhelmingly those same audiences say that it is because of two factors: 1) talent and 2) decision making. The first factor seems obvious: you want to attract and retain the best people. (Which, we all know now, given the first paragraph above is NOT the breadheads. ☺) But the second factor—decision making—is a bit more nuanced. What is it about strong culture that leads to better decision making?

The answer is “workability.” This term simply refers to the ability to work well together. Webster’s has a definition for workable: “Capable of being worked, dealt with, or handled” but not workability. I think Erhart and Jensen coined this term in their article called “Putting Integrity back into Finance.” (Good article, we’ll send it if you like.) In their piece, they argue that Integrity is not so much a moral issue—about good and bad behavior—rather, it is a workability issue. Low integrity leads to low workability. Or to reverse it, high performing teams have high integrity. For example, they make and keep clear agreements. They show up on time for meetings. They don’t gossip. They trust each other. So, Erhart and Jensen claim that integrity is a factor of production—like capital or plant and equipment—not a moral factor. If your plants are old and shoddy, you get poor output. Likewise, if your firm has low integrity, you get poor production.

Taking this definition of workability and applying it to the chart above, I think that investment professionals are making a similar point around decision making. Strong culture (read: high workability) leads to better thinking and better decisions. Why does strong culture translate into high workability? Culture is precisely the rules of engagement and the mindset of the organization. If staff members understand what it means to practice integrity, accountability, candor, and the like then they will perform at higher levels. One example of an investment leader who “gets” this concept is Ray Dalio at Bridgewater. He has carefully articulated the culture of Bridgewater in his document called “The Principles” (available on their website). And more recently, Ed Hess has studied how these principles work at Bridgewater and written the book, “Learn or Die: Using Science to Build a Leading-Edge Learning Organization.” (I’m just reading it now and will write about it next time.) But the point is: a strong culture means careful thought about how we want to work together. Hence the connection in the chart above between strong culture and better decisions.

Another important ingredient to strong culture is purpose. Dan Pink tells us in Drive that mastery, autonomy, and purpose are the big motivators for knowledge workers. We see the proof of this in our daily client work. In particular, we see that the Focus Elite (9 investment firms with top cultures) have strong statements of purpose that motivate their teams. Additionally, leaders of these teams are sensitive to the reality that different people are motivated by different aspects of their work. In the same setting as the above slide on “Benefits of Strong Culture”, we asked leaders to comment on what aspects of work are most meaningful to them:

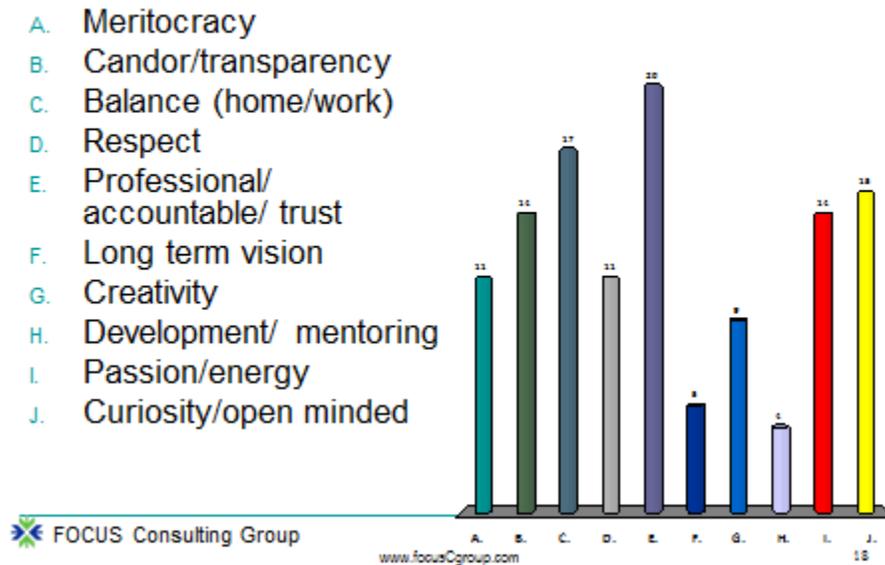
## Which are most meaningful to me? (pick 2) My work...



Notice in this roomful of CEOs from around 30 asset management firms that all the choices are represented. Too many CEOs make the mistake of thinking, “everyone is just like me.” That is, “I like building a sound and sustainable financial future for our firm, so everyone else must be motivated in the same way.” Wrong. Even among CEOs—the group most likely to rally around sound financial future—you can see the spread of interests. More than half of these CEOs did NOT pick sound financial future as one of their top two picks. FCG is collecting data like these from many asset management firms and will soon be able to draw some industry-wide conclusions. For now, leaders should be mindful that meaning comes in different flavors for staff members. One size does not fit all.

Another vote prioritized values. We asked the CEOs to select among these values. (Note: we left out the Big Four: clients, integrity, teamwork, and excellence because all firms seem to rally around them. They are the DNA of the industry.) The polling result was:

## Which 3 would be top rated at your firm?



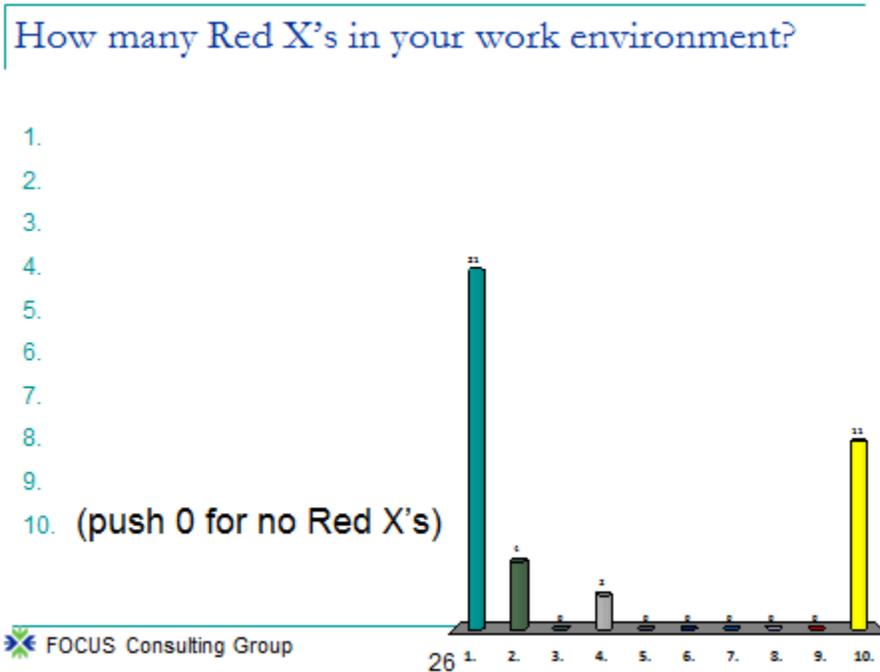
The top vote getter was “professional/accountable/trust” which fits with the earlier comments about workability. CEOs understand that you won’t produce good work without professionals who practice accountability and build trust. (Unfortunately, too many well-meaning leaders equate accountability with blame—i.e., figure out who messed up and blame them quickly. See FCG’s recent piece in CFA magazine, “Blame, Accountability and Performance.”)

Note also that balance (home/work) is seen as a powerful value in today’s workforce. FCG has been involved in many discussions with CEOs about how to strike the right balance. Again, going back to Pink’s research: mastery, autonomy, and purpose. The autonomy piece is important to knowledge workers, read: YOUR staff. Many CEOs are stuck with what FCG would call “old paradigm thinking” around autonomy. They still believe that facetime is important and that “work is a place you go, rather than a thing you do.” Current mindset is shifting to the Results Only Work Environment (ROWE), in which leaders trust their staffs to get the promised results in WHATEVER fashion they choose. FCG has first-hand experience with this approach because we practice it. I have no idea what my colleagues are doing when I am not with them. But I know they are producing first rate results for our clients. And that is what matters. (Best resource we know of: “Why Work Sucks and How to Fix It” by Ressler and Thompson.)

Now for the blindspot. Notice in the vote above that only four CEOs said that “development/mentoring” would be top rated at their firms. The biggest gap we find in all of our culture work is here: development/mentoring. The new generation of workers—Xers and Millennials—are very clearly calling out for this in their work life. FCG sees this in survey after survey: we don’t have it and we want it!

Which naturally leads to the question: what is IT? What exactly is development/mentoring? For starters, it is career pathing. The new generation of workers want to know, “what are the career steps in front of me? What is the next level up and what do I need to do to get there?” (I’ve talked to old geezers like me about this mindset and we all share the same view, “Shit, when I got my first job, I just figured it was a good thing and I would work hard and keep my head down!”) Not any more. Young professionals are asking for training, mentoring, and a path. Ignore this new reality at your peril. (One CEO uttered the 21<sup>st</sup> century equivalent of “let them eat cake” when he said, “screw ‘em, if they need all that pampering, let ‘em go elsewhere.” Trust me, they will.)

Red X’s are still alive and well in our industry. Just look at the vote below.

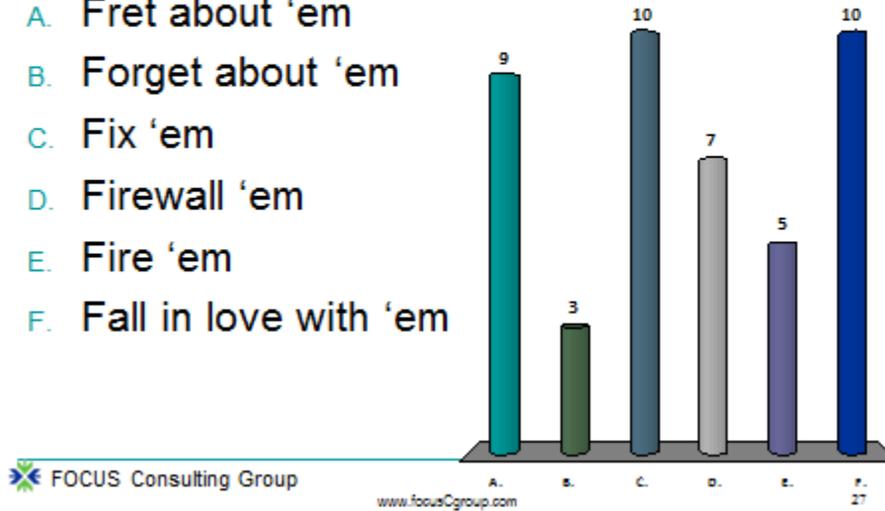


Remember, Red X is the term we coined to represent the really talented but really difficult stars in our industry. (We have notified Bill Gross that he is now an honorary member of this club.) When discussing the vote above with the audience, I said, “So 27 of you acknowledge that you have these difficult stars in your firm, and 11 of you are still in denial.” 27 people in the room laughed hard at that comment.

And finally, what do you do with these Red X’s. Our menu of options, and the CEOs choices, are in this chart.

## How do you typically manage Red X's: Choices (2)

- A. Fret about 'em
- B. Forget about 'em
- C. Fix 'em
- D. Firewall 'em
- E. Fire 'em
- F. Fall in love with 'em



The “hint and hope” strategies (choices A and B above) are still alive and well in the industry. We like to say, “Denial is not just a river in Egypt.” Interestingly, we’ve added the final “F” choice: Fall in love with ‘em, and 10 CEOs chose it. That’s my personal approach. I look for ways to genuinely appreciate and love what these eccentric and talented individuals bring to the mix. As long as they are not mean-spirited—and I’ve only encountered a handful of them in 15 years—I can usually find a way to love these Red X’s. But then again, I don’t work with them day in and day out!

Well, that’s enough for one journal entry. Try to avoid getting Ebola (FCG rescheduled a trip to South Africa next week just to be on the safe side...) and do let us hear from you. We are genuinely curious. And, oh yes, tune in to our next Hit It & Quit It on October 24 (noon central) when Keith Robinson and Michael Falk will solve all of your compensation problems in 20 minutes. ☺ You can find the webinar registration link on our website: [www.focusCgroup.com](http://www.focusCgroup.com)

Stay curious my friends,

jw