

November 2, 2014

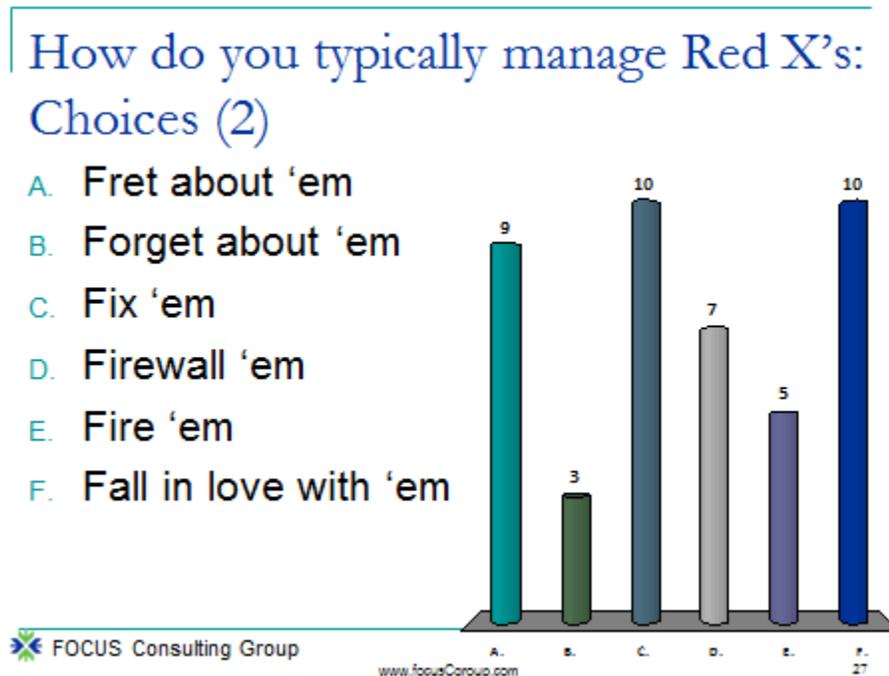
LOL Journal: Managing the Red X: Dealing with Clever People

Last week I wrote about the characteristics of clever people. This week we address the tricky question of managing them. Full stop. If you just read that line *without* a reaction, you've already indicated that you don't really understand the problem! To quote from last weeks' LOL:

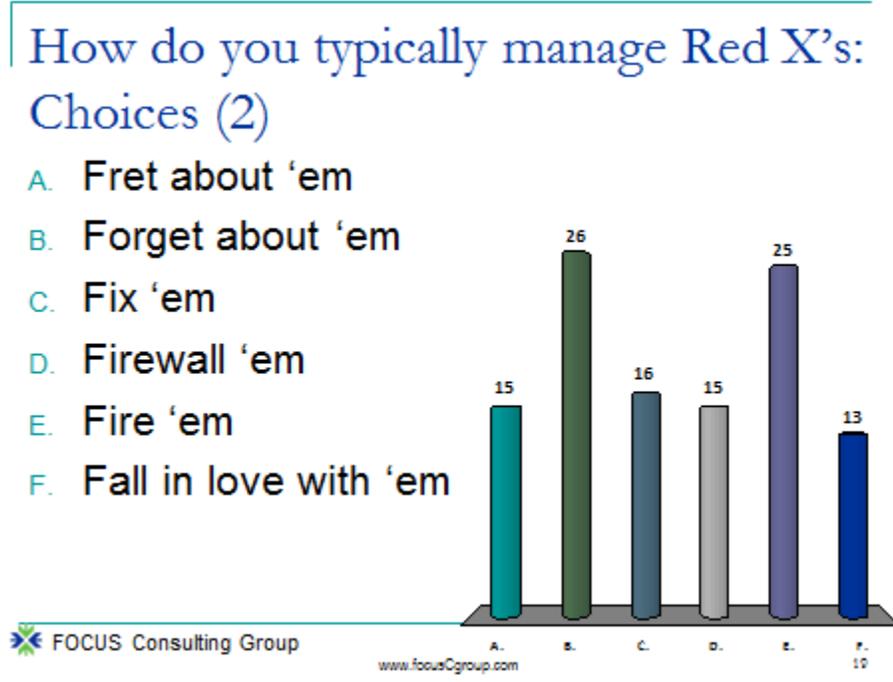
If there is one thing that defines clever people it is that they don't want to be led, and they are absolutely certain they don't want to be managed! (From "Leading Clever People" by Goffee and Jones, hereafter referred to as Gojo.)

So if you can't manage or lead them, what can you do? In presentations to investment audiences, we've presented this voting slide to find out what investment leaders actually do real-time. The results from two such audiences:

- 1) CEO's from major investment organizations:



2) PM's and analysts from one large investment organization:



Notice that all the choices are represented in the voting results. There are many ways to deal with Red X's. Choices A and B are basically the good old "stick your head in the sand and hope the problem goes away." (Denial is not just a river in Egypt.) Usually leaders include a little "hinting and hoping" in those strategies. Which is comical because we all know that little, gentle nudges will have the same effect on these people as on Vladimir Putin. Nada.

Then there is the "Fix 'em" option, which is where FCG comes in. We routinely get hired to come in and assess the situation and coach the Red X's. (In one case, after the firm had fired the Red X twice and hired him back a third time, FCG got the call. Raise your hand if you think that in this instance—three's a charm—the Red X had changed his stripes. Of course not!) In this case, we quickly moved from Fix 'em to Firewall 'em. The firm removed all his direct reports, located the Red X thirty-five miles from the headquarters, and doubled his Personal Assistant's salary. One fatal flaw, though. They gave this Red X a telephone, which allowed him to stir up trouble from two zip codes away. Our guess is that the firm in question will be moving to choice "E"—Fire 'em—in the not-to-distant future. When firing them becomes the only viable solution, then we often refer to this cartoon as a way to frame the decision:



“Let’s face it: you and this organization have never been a good fit.”

Red X’s can fit well into other cultures. They are talented and can be re-potted in different soil. Our advice to leaders who are firing someone—whether or not it involves a Red X—is to frame the event as a “good fit” discussion. This allows the leader to honestly support the Red X and to state sincerely, “we want you to be successful, and to be happy.” But elsewhere. In FCG’s experience, these decisions—though never easy—always work out better for all parties in the long run.

Which leaves the final choice—Fall in love with ‘em. This is where I always try to go. The Red X’s in this industry are quirky, egotistical, brilliant, and driven. Many of these clever people are absolutely fascinating. Spending time with them can be truly enjoyable. There are exceptions. I draw the line with Red X’s who are arrogant and/or mean-spirited. I have not encountered many who are like this, but certainly some. They are poison to an organization. We know firms where one toxic Red X in a senior position can ruin the culture for everyone. (One Google leader writes, “Arrogant geniuses always backfire. They become a terror to other engineers. They may be a hundred times cleverer, but an arrogant genius can demoralize a thousand people.”) It seems that PIMCO made this call with Bill Gross.

The Fall in love with ‘em strategy involves a spiritual dimension. It asks us to expand our consciousness beyond what we label “comfortable.” It has a “love thine enemy” quality to it. But humans are hard wired to see: *different is dangerous*. So, when we encounter a quirky and unorthodox Red X we instinctively get defensive. Especially if they are challenging our thinking. And especially, especially if they are challenging and correct! In that case, we feel very defensive, like we are under attack. And our instinct is to expel the foreign object. So, the question in these cases is, “can the culture stretch to

absorb a benign Red X or is it too disruptive?” We’ve seen situations like this go both ways: absorb or reject. And many times the absorb decision has paid off well for the firm. Again, for me the key factors to consider are arrogance (a complete lack of humility and curiosity) and mean-spiritedness (a perverse desire to belittle or bully others, see “The No Asshole Rule” by Robert Sutton, PhD for more on this). If either quality is present, then absorbing the Red X into the culture is a bad idea.

So, you have a bona fide Red X on staff, or have absorbed a new one, how do you lead this person? Let’s return to our guest experts (Goffee and Jones, “Gojo”) and see what they recommend. First off, they state clearly that:

“Our research suggests that leading clever people requires a very different style of leadership from that traditionally seen in many organizations.”

In short, it requires both humility and toughness. Either alone is insufficient. In addition Gojo emphasize a term they coined called, “situation sensing.” This means the ability “to tune in to their context: to view the world through their eyes...They pick up and interpret soft data—sometimes without any verbal explanation. For example, they sense when a team is on task and on target or when additional resources are required.”

Getting practical, the chart below is a nice list of dos and don’ts for leading clever people, courtesy of Gojo.

Do List	Don’t List	FCG comment
Explain and persuade	Tell people what to do	Telling clever people what to do implies that they are not smart, so they hate it. If you have to say “no” to them, then be sure to provide an explanation. Gojo say, “in the clever economy, command and control is ancient history.” We know one CEO who regularly gets frustrated and gives orders to his Red X’s. This move ALWAYS backfires.
Use expertise	Use hierarchy	In short, don’t pull rank on clever people. One reason why investment people believe they can only be led by other investment people is the “expertise” argument. It goes like this: I’ll respect you and possibly even follow you, IF you are an expert (like me). Otherwise, forget it. Knowing the language of investments and markets allows you to speak the language of your clever people. VERY valuable.
Give people space and resources	Allow them to burn out	Give them the space and resources so that they use their brilliance constructively, rather than in a destructive pursuit of what they think they need. Gojo write, “once given the space and resources, there is rarely a need to motivate them. In fact, the opposite is the case. Leaders must ensure that their clever people aren’t burned out by their obsessions.” Work/life balance is a strong value in many investment firms.

Tell them what	Tell them how	Grand visions may be a distraction, while a sense of direction that unifies efforts is helpful. Importantly, “clever people are not only capable of figuring how to get something done, but they also take great pride in figuring out how to get it done <i>their way.</i> ”
Provide boundaries	Create bureaucracy	Structure is important. Yes, give them space, but also focus their efforts by providing some rules and discipline. Gojo suggest that a one line summary for advice to leaders is: give them the environment that enables them to succeed. Give them “organized space.” Eliminate anything that smacks of bureaucracy.
Give people time for questioning	Interfere	Even though clevers can be intellectually intimidating, Gojo recommend that CEOs be willing to engage them in debate. “Clevers tend to admire that intellectual engagement, some would say confrontation.” Give clevers time to air their concerns, worries, and aspirations. Experiment with different communication channels. One size does not fit all.
Give recognition and amplify achievements	Give lots of feedback	Remember: clevers identify with their work, so recognizing their achievements is vital to their self-esteem. (Though most will deny it.) The model that FCG uses for feedback is called ACE : A ppreciation, C oaching, and E valuation. Gojo are suggesting that the “A” should be used more than the “C” (providing tips) or the “E” (providing assessments of how they are doing). Most clevers do need stroking, but it has to be genuine and from someone they respect.
Encourage failure, maximize learning	Train	Ouch. FCG does a fair amount of training with investment people, so we looked hard at this one. Gojo put it this way: “clever people view conventional training with disdain and as interference with their work. They learn best when faced with the next difficult assignment with an important client.” In the case of investment professionals, they often get powerful lessons from post-mortems, analyzing their failures and successes. FCG estimates that only 10% of investment firms get valuable learnings from their experience. The training that we now do with investment firms is very practical and only after we’ve done careful prep work to “surface the need” (so that the training responds to it).
Protect clever people from the rain	Expose them to politics	One investment president describes his role as removing obstacles so that the investment pros can focus exclusively on their work. His bonus was based on how well he accomplished that goal. In exchange for “protection from the rain,” we know investment professionals who would consider a cut in pay. Uninterrupted work time is THAT important.

Give real world challenges with constraints	Build an ivory tower	<p>This one applies more to academics, programmers, medical researchers, etc. But we have seen quant shops and even some fundamental investment shops which have enjoyed enough success so that they are insulated from performance. Most clever people are at their best when faced with “real and hard questions that they must solve within meaningful constraints.” Conversely, every good investor we know is harder on him/herself than any boss could be. The “piling on” doesn’t help.</p>
Talk straight	Bull shit	<p>Investment clevers are both smart and skeptical, so they have excellent BS detectors. We advise investment leaders weekly to talk straight and be transparent. Not only because it is the morally right thing to do, but frankly it is just stupid to do otherwise. Your clevers will see through the BS and learn the “secrets” anyway, so get out in front of it. Gojo put it this way: “Clevers typically have uneasy relationship with firms which makes them supersensitive to perceived deceit, corporatespeak, double-dealing, or any other strategy that implies they can be easily duped.” They can’t be.</p>
Create a galaxy	Recruit a star	<p>Gojo: “While it is conventional wisdom to seek to attract stars to an organization, the real leadership task is to ensure that these stars are connected to each other in ways that influence the entire organization. The leader is building a social architecture of knowledge. It’s akin to using the best players on our soccer team to set the standards for everyone.” The good news for investment leaders is that clever people do NOT have to be Red X’s (i.e. difficult to work with). Some are, but others are brilliant and positive culture influencers.</p>

Google is an organization that is often held up as very progressive, with lots of clevers. So, how do their leaders describe their roles? “We aim to offer people the freedom to be really good. I think that’s what Google is really about: the freedom to do your best work. My job is to help make that happen.”

Certainly this same statement applies to investment leaders. It is a talent business. And underneath all the scorn that clevers have for leadership, they “do want leadership from someone they respect.” They know that good leadership will result in a better work environment. Some structure is necessary.

Another Google leader sums it up this way, “The twentieth century was all about hardworking engineers. The twenty-first century is about flat organizations that must collaborate and compete.” As it relates to investment organizations, Kai-Fu Lee at Google, has some interesting advice: “the future needs to include not analysts but synthesizers. Clever organizations place a premium on the ability to synthesize multiple points of view. [Global macro funds, asset allocators?] Analysis only gets you so far.

In the end, the clever economy requires synthesis: a recombining of inputs to create something new and better.”

How does this leadership discussion extend to culture management of clever firms? The glue for clever organization, according to Gojo, is four part:

- 1) **Discipline:** provide clear and simple rules. Two guidelines here: only have a few rules, and make sure the rules are agreed upon. (The core values for the investment world are: 1) client-centric, 2) integrity, 3) teamwork, 4) professional excellence.)
- 2) **Meaning:** or as Dan Pink calls it in **Drive**, “Purpose.” One CEO puts it this way: “Clever people want to work with people they respect, doing meaningful things in a company that is respected externally.” The Focus Elite—9 investment firms that have unusually strong leadership and culture—certainly meet these criteria.
- 3) **Trust:** No structural arrangement can work without the underpinning of widespread trust. Good communication stems from and supports trust.
- 4) **Genuine caring:** about the clevers and the organization. Passion is a word we hear often in rooms with investment professionals. Despite all the lip service given to “objective, fact based” decision making, the truth is that conviction still rules the day. PMs want the analysts to promote stock ideas with real conviction, i.e. passion. And investment professionals want their leaders to show this same passion for being a premier organization.

Gojo summarize their findings in this way:

“Clear and simple rules, shared meaning, continuous dialogue (supported by trust), and really caring—this sounds like the stuff of a clever HR strategy.

Cleverness is not some sort of elixir of life. But the curiosity that is fundamental to cleverness is the essential lifeblood of the modern organization. Understanding, organizing, leading, and maximizing this is a great challenge. In the clever economy, only the curious will thrive. Any questions?”

Nice to see that Gojo emphasize the value of curiosity in their closing summary. As most of you know, curiosity is one of the core four behaviors--along with candor, accountability, and appreciation--that support all the other leadership skillsets.

So, stay curious,

JW