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LOL Journal: Learn or Die

FCG's poster child? It would have to be Ray Dalio (Bridgewater). Why Ray Dalio? He is possibly the strongest advocate for FCG's core behaviors: curiosity, candor, accountability. (We're working on a cute photo of Ray with FCG pom-poms…) Ray details his beliefs and methods in a piece called "Principles" on their website. And the fact that Bridgewater is arguably the most successful hedge fund on the planet doesn't hurt. What is the secret of Bridgewater's success? Ray says, "Our greatest power is that we know that we don't know and we are open to being wrong and learning." Humility. Ray is fond of saying, "I'm a dumb sh*t." What else is required to build a great firm? "You have to make two things great—the culture and the people. If these two things are great our organization can navigate the twists and turns to get you where you want to go." FCG's mission is to help investment leaders leverage their talent by helping them build great cultures.

So, you can see why Ray would be a top candidate for our poster child.

In his book "Learn or Die," Ed Hess reviews the literature on learning organizations: what does it take to build one? And he reviews three of them: Bridgewater, INTUIT, and UPS. Hess makes the case that winning in the knowledge era requires firms to create high performing learning organizations (HPLO's). And the formula he proposes is: **HPLO = Right People + Right Environment + Right Processes**. If you have been following FCG's work closely for the last decade, you won't find much that is new in this book. You'll reconnect with many of our old friends like:

- Peter Senge (the originator of the concept, "learning organization")
- Chris Argyris (Why Smart People don't Learn)
- Danny Kahneman (Fast and Slow thinking)
- K. Anders Ericsson (Deliberate Practice, 10,000 hours)
- Abraham Maslow (hierarchy of needs & self-actualizing)
- Dan Pink (Drive: mastery, autonomy, purpose)
- Jim Collins (Good to Great)
- Carol Dweck (Growth Mindset), and many other familiar thinkers.

So, the book is a good primer on learning organizations. And how Bridgewater has taken the principles to a radical extreme.

Hess does a nice job of surfacing the real problem: Ego. The biggest barrier all of us will face in becoming great learner, or great investors is the ego. We all have one. And it is a worthy opponent. I know CIOs and PMs who have towering IQs (150ish) but they are completely outwitted by their egos. So much so that they don't even SEE that ego is their problem. And, of course, Ego LOVES that! ("How wonderful, he doesn't even know I'm here, so how can he defend against me!?") What's an example of this? The PM who enjoys some success, starts believing his press clippings and eventually resists all feedback. (With breathtaking rationalizations like, "I'm open to feedback, but not from these idiots!")

Ed Hess—to his credit—acknowledges this: "I became a better thinker by becoming a better learner. To become a better learner, I had to quiet my ego. That had a big impact on my leadership style and effectiveness." What did this mean exactly? "I had to become more humble, more open-minded, a better listener, more emotionally intelligent, and a real (not pseudo) critical thinker. Yes, I had a lot of work to do. The process was humbling but needed." Hess goes on to say, "I learned to suspend my judgments and my rapid formation of answers in order to be in the moment [FCG: "present"], sensing people's emotional cues, and focusing on what was and was not being said. I learned to stop interrupting people so much by counting to ten after a person stopped speaking and before I spoke…I learned the power of saying: 'please; thank you; I was wrong; I don't know; I am sorry; and how may I help you?'"

That's a full helping of humble pie. How many of us are willing to submerge our ego and be that humble and honest? (By the way, if you are really proud of how ego-less you are…THAT is ego!) FCG knows one CEO/CIO who has a very hard time managing his ego. He interrupts people constantly, on the order of 10 to 15 times per meeting. When we confronted him directly about this, he responded, "Well, sometimes, I have to make teaching points. I can't just listen because what the other person is saying is so wrong." Congratulations Mr. Ego, you won that round convincingly! The CEO/CIO's ego has validated to him that he is perfectly justified in shutting people down on a regular basis. A humble and self-aware leader (read: NOT ego driven) would have gotten curious about our feedback: "Really? I interrupt people THAT often? Hmmm. I wonder what effect that has on the person. And on my leadership?" FCG can answer that question. This firm regularly loses talent to competitors. Even though this firm pays top quartile compensation. One of their top analysts told us, "I feel like I'm working at about 30% of my potential here." Soon after telling us this, s/he left without having a job offer. S/he had identified the culture as toxic and said s/he was falling into the "helpless victim" mindset: that s/he was a weak analyst and was lucky to have this job.

Hess talks about toxic cultures, ones that are characterized by lots of fear and negativity (gossip, politics, blame, etc.). He writes: "negative emotions tend to have a detrimental effect on cognitive processing, decision making and learning. They force us to narrow our focus in order to allocate more of our cognitive resources to deal with perceived threats—whether physical or emotional…Persistent negative emotions, such as anxiety or fear, are toxic to learning. They impair comprehension, creativity, and retrieval from long-term memory." FCG has measured these effects—via our "sludge factors" in culture surveys—and found a direct correlation between negativity and poor performance. (See FCG article in CFA Institute magazine: "Blame, Accountability and Performance" Sept/Oct 2014)

Ray Dalio makes the same point about ego: Bridgewater's competitive edge is to think better than other companies. And to do that, one must "reduce ego defenses and emotional hijacking." (Emotional hijacking occurs when we get fearful which triggers the "fight or flight" response. FCG calls this "going below the line.") We often say to clients, "when your thinking has been hijacked—you are below the line—then your one goal is to get back above the line!" Hess addresses this point: "We have to take control of our emotions physiologically and mentally, so that we can prevent emotions from hijacking our thinking and behaving. Taking deep breaths or taking a walk to reduce the physiological stress can "tame" emotions." FCG calls these "shift" moves: consciously moving yourself from below the line back to above the line, which means even-tempered and calm.

So, what are some of Hess's suggestions for creating a positive learning culture?

1. **Treat employees with respect, dignity and trust**. Hess writes, "Leaders and managers need to behave in a manner that earns the trust of employees and engenders employees' beliefs that they are respected as unique individuals and that their managers care about their personal growth and development." Couple of key points here: first, FCG has found in its culture work that trust is the platform on which all the other behaviors rest. If you have low trust, you can't hope to develop transparency, candor, healthy and honest debate, genuine appreciation, etc. Trust provides the safety in which people can take chances, be vulnerable and learn from mistakes.

2. **Teach individuals to be more positive**. According to the work of Alice Isen, "Positive emotions are associated with openness to new ideas, better problem solving, openness to disconfirming information, less rigid thinking, better recall of neural or positive stimuli, and mitigation of ego defenses." Simple exercises can increase the level of a person's positive mindset. "According to research, expressing gratitude every day to at least three people, smiling more, keeping a journal in which you record positive emotional events, and taking time to think about the good things in your life each day have been shown to increase positive emotions." FCG jokes that the investment industry that suffers from ADD: Appreciation Deficit Disorder. We regularly see culture survey results in which the staff requests more appreciation and recognition. When we ask the leaders why they don't do this, the typical responses are: 1) if we appreciate them, they will ask for more money, and 2) if we appreciate them, they will stop working so hard. FCG can let you in on a little secret: just the opposite happens! People will work for less money, for longer hours and with more loyalty if you recognize their efforts! Try it. You'll like it.

3. **Reduce fear in the organization**. Hess writes, "Underlying most of our learning inhibitions or inadequacies is fear of something. Fear often is what underlies our inability to change behaviors that we want or need to change." FCG has done lots of research into fear because we have seen firsthand that Hess's point is accurate: fear inhibits learning and change. There are three major causes of fear: 1) **loss of security** (financial, physical, emotional), 2) **loss of approval** (people won't like me, or I won't like myself), 3) **loss of control** (I won't have sufficient control over a situation, such as the outcome of a decision or meeting.) When you are feeling fearful, it is useful to ask, "Which of these three meta fears has been triggered? Security, approval or control?" Invariably, people can identify which one is behind their fear. By honestly identifying and facing the fear, it is possible to let it go. The process we use is called the Sedona Method (one of our consultants, David Ellzey, is a certified expert in this process). It reliably allows people to reduce fear in their life. The Sedona Method is so simple that many investment people dismiss it. (They are literally too smart for their own good. Another great victory for Mr. Ego!) The method simply requires a person to identify the issue, the feeling

associated with it (fear, anger, sadness are the big 3), and then to ask, "Could I let this go?" It's a simple choice: yes or no. Again, it is far TOO simple for most investment professionals. And so they miss it.

4. **<u>Practice mindfulness</u>**. Another powerful practice that is becoming more common place in business is mindfulness. Hess describes it as, "mindfulness is being attentive and noticing what is present and when you are present. So much of learning requires one to be present." Mindfulness helps people return to the present moment—to let go of past regrets or future concerns—and be effective in the here and now. FCG recommends the little book, "Practicing the Power of Now" by Eckhart Tolle for more on this important topic. (Our in-house expert on mindfulness is Robert Chender, who is now teaching and coaching widely on this topic.)

5. **<u>Rally around mastery and autonomy</u>**. Hess chooses to cite Deci and Ryan's work as the source of these values (as opposed to more recent work by Dan Pink in "Drive") and quotes them as writing: "human beings have the innate psychological need for 1) **autonomy**—some choice and control over our actions, 2) **effectiveness** (i.e. mastery)—a feeling of competence and sense of accomplishment." Indeed, investment cultures time and again in our surveys show that these two values are critical to good learning and good thinking. You must let the professionals have the freedom they need and allow them to progress and learn in their work. Practicing these values leads to engaged and productive workers.

Returning to Hess' formula for high performing firms—**HPLO = Right people + Right environment + Right processes**—here are his conclusions:

1. **<u>Right people.</u>** Hire bright candidates who have growth mindsets (open to learning and overcoming obstacles) and who fit with the values of the firm. Identify their areas of brilliance (what FCG calls "genius"), so that you can align them with their strengths. Turn them loose (autonomy).

2. **<u>Right environment.</u>** As discussed above, learning organizations practice "trust, mutual respect, respect for the process and psychological safety." If these fundamentals are in place, then curiosity, candor and accountability can become core values in the firm. Candor is especially hard to cultivate, as investment professionals are cagey about "the upside—of being fully open--is not worth the risk of the downside." Hess states, "Leaders have to earn the trust of subordinates by inviting them to speak up, heaping praise on the courageous ones that do so, and demonstrating humility by admitting their own failures, mistakes and ignorance."

3. **<u>Right processes</u>**. Especially what it means to have excellent communication, and critical thinking skills. Hess describes several best practices for investment firms: 1) post-mortems (after action reviews in the military), 2) pre-mortems (as a way to anticipate problems with decisions: "what could go wrong?") 3) Journaling: as a way to carefully record one's thinking so as to avoid hindsight bias, 4) checklists, as a way to be thorough in one's process, making it repeatable, 5) unpacking assumptions of an argument, so as to see if it has merit. (Hess: "People cannot

examine their own assumptions." Which is why learning is a team sport. We need others to help us see what we cannot on our own.) By the way, our in-house expert on investment process is Michael Falk, CFA. He teaches all of the above "best practices." Michael and Hess agree on the general outline for unpacking ideas:

a. State our belief clearly.
b. Unpack the assumptions underlying that belief.
c. Determine what leaps of thought or inferences we're making based on those assumptions.
d. Stress test those assumptions/inferences by evaluating the data that supports and disconfirms them.
e. Determine whether we have enough quality data to proceed, or whether we need to gather more data. (Determine "fact" vs. "story" and then see if the story holds up under scrutiny.)

After making the case for learning organizations and what they consist of, Hess turns his attention to firms that embody these principles. One such firm is Bridgewater. (The two others: INTUIT and UPS) People have criticized Bridgewater's approach because it is extreme. But FCG would respond that battling the ego requires extreme measures. None of us likes to look bad. But a key principle at Bridgewater is" "don't worry about looking good—worry about achieving your goals." And importantly, "motivation to get better [to learn] has to be higher than the motivation to be right [look good]." Many top grad students pass on the opportunity to work at Bridgewater for this reason: they don't want to subject themselves to looking bad. They enjoy being stars and Bridgewater is far too humbling an experience for them.

Furthermore, Ray believes that "pain + reflection = progress." In other words, when you have an "ouch" experience at work—someone challenges your work publicly—then you are expected to get curious and reflect on the lesson learned. The more common response is simply to trash the challenger, "What a jerk. He shouldn't have attacked me like that. What does he know! No one likes him anyway." ☺

The goal is to become a really good learner and thinker. Bridgewater's competitive edge is out-thinking the other investment firms. By practicing behaviors like curiosity, candor, transparency, and debate and using tools like checklists, journals, post-mortems, and pre-mortems, Bridgewater can make the case that they are world class thinkers. But it's not easy. Like training for the Olympics, there is a lot of blood, sweat and tears that goes into the process of taming the ego and committing time and time again to learning over looking good. Creating a firm that is an "idea meritocracy" is not easy. One Bridgewater employee said that it is like, "Going against human nature and being human at the same time." As with any strong culture, some people will love it and some will hate it. There are many ex-Bridgewater people who will agree with the latter point. But, Bridgewater was named by P&I magazine as a "Best Place to Work" firm, and that was driven by employee feedback.

So, as an investment leader, what is a key takeaway from this piece? It could be summed up in our expression, "Speed of the leader, speed of the pack." Namely, the staff won't go anyplace that YOU are not willing to go. So, if you want them to be open and humble and committed to learning, then YOU have to be. (Damn, don't you hate that?) Here is a passage from Hess' book in this regard:

"I reviewed a detailed e-mail written to Ray by a manager who criticized Ray's performance in a client meeting. It was direct and negative. From memory, in substance it said that Ray came across as unprepared and that the points he made were unclear and disorganized. Both this e-mail and Ray's response were public. Ray's response was NOT defensive. He was accepting and thankful for the feedback, and he talked about what he would do to ensure that such a performance would not occur again. He apologized for letting the team and the firm down."

Given what Ray is asking from his team, it is absolutely necessary that he behave this way. He must live by the same ego-less rules that he expects from them. If it is time to eat humble pie, then grab a fork.

In closing, I'll say it again: the battle is between you and your ego. Two Bridgewater employees stated it this way: "The real battle was with ourselves. Egos, blind spots, and letting our subconscious self-control us. We needed other people to help us recognize our weaknesses, get past our egos and see things we cannot see. What we learned is that by holding each other accountable, we are helping each other to be great."

For the record, FCG does not believe that Ray's approach at Bridgewater is the ONLY approach to building a learning culture. But the principles he is practicing are powerful and deep. And he understands that the ego is the opponent. And did I mention, Ray is a meditator. ☺

We're working on getting Ed Hess and Ray Dalio to join us for Hit-It-&-Quit-It Webinars. Stay tuned.

And stay curious,

Jim