May 12, 2017

LOL: Purpose Power: Motivating Investment Professionals

How do you bring out the best in investment professionals? How do you motivate them and get them fully engaged? (Gallup estimates that less than 30% of U.S. workers are engaged.) The myth for decades has been: "Show me the money!" The more you pay me, the more you motivate me. Simple.

Fortunately, State Street Center for Applied Research (CAR) and the CFA Institute have teamed up to dispel this myth. In a recent piece called *Discovering Phi*, Suzanne Duncan and her team dug into this topic using SDT (Self Determination Theory) as a framework for researching motivation. SDT assesses motivation on a scale ranging from extrinsic to intrinsic motivators, defined as follows:

Extrinsic	Intrinsic
• Emotional pressures	• Doing something important
• Bonuses	• Believing in what you do
• Status	• Doing it because it's right
• Winning and competition	• Doing it because we love it

Extrinsic motivators are carrots and sticks. They represent external influences that attract or repel. Bonuses attract. Threatening bosses repel. Conversely, intrinsic motivators—aptly named—are independent of influences outside of us. When we do meaningful work, we are naturally motivated. When we do the right thing, virtue is its own reward. When we love our work, we thrive. Ideally, doing purposeful work that we love is as good as it gets.

So, which is more effective in obtaining investment success: extrinsic or intrinsic? The phi study revealed that a one percent increase in phi—based on a diagnostic created by CAR—is associated with:

- 28% greater odds of excellent organizational performance
- 55% greater odds of excellent client satisfaction
- 57% greater odds of excellent employee engagement

There you have it: more success and more engagement when intrinsic motivators are at work. For shorthand, you can interchange the word phi with purpose. More phi equals more purpose which drives more motivation which leads to better results. What actions can investment leaders take to build phi in their firm?

Action	Industry Data
Articulate a compelling vision.	Only 44% of investment professionals believe that their leaders do this.
Remind staff of their fiduciary duty.	Only 46% of retail investors believe that financial institutions operate in the client's best interest.
Create an inspirational statement of purpose (A mission statement that explains the "why" for the firm.)	Only **5%** of managers believe their mission statement has a significant positive influence on the day-to-day lives of their employees.
Teach and coach employees.	Only 33% of investment professionals believe this is occurring at their firm.

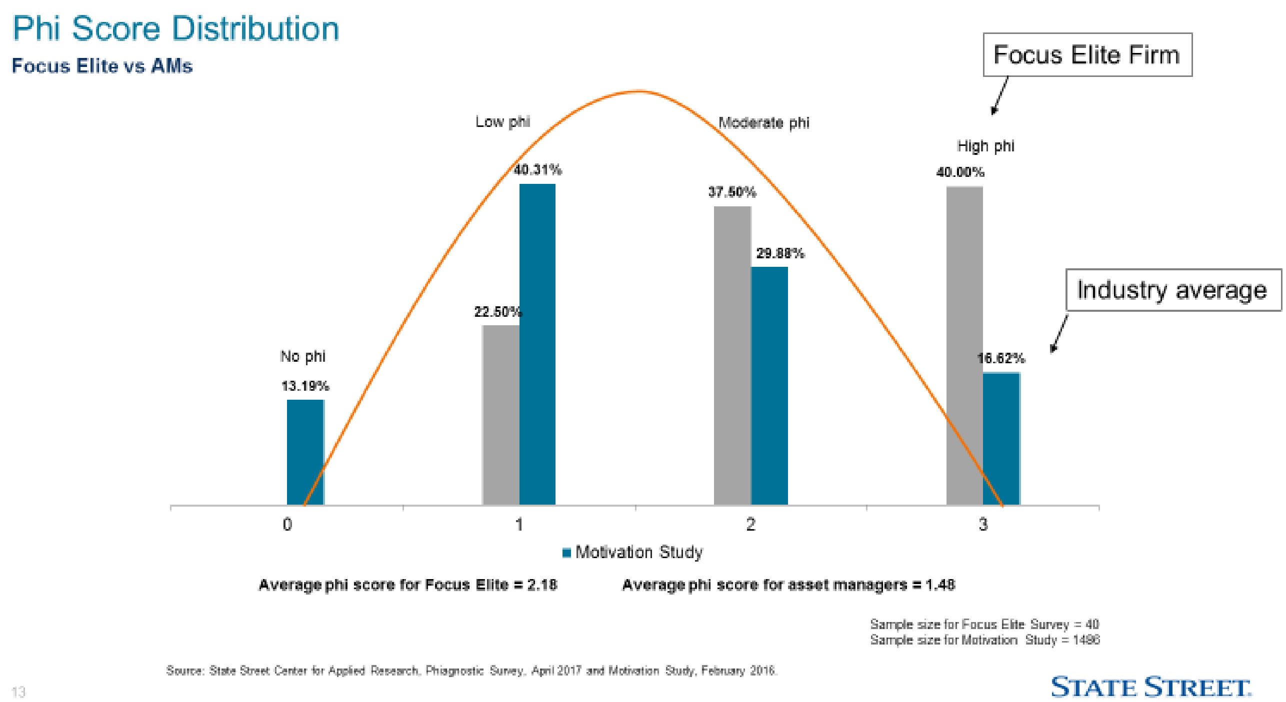
The above are just some of the actions that leaders can take. Others include:

- Aligning staff with work they love to do
- Developing a set of core values that is meaningful to the staff
- Connecting the goals of the firm to purpose
- Providing staff members with autonomy: how, when, and where they do their work.
- Encouraging and supporting continuous learning

CAR's phi-agnostic measures the level of phi in an organization. It measures the extrinsic/intrinsic motivators for each respondent (i.e. staff member), then aggregates them for a firm score.

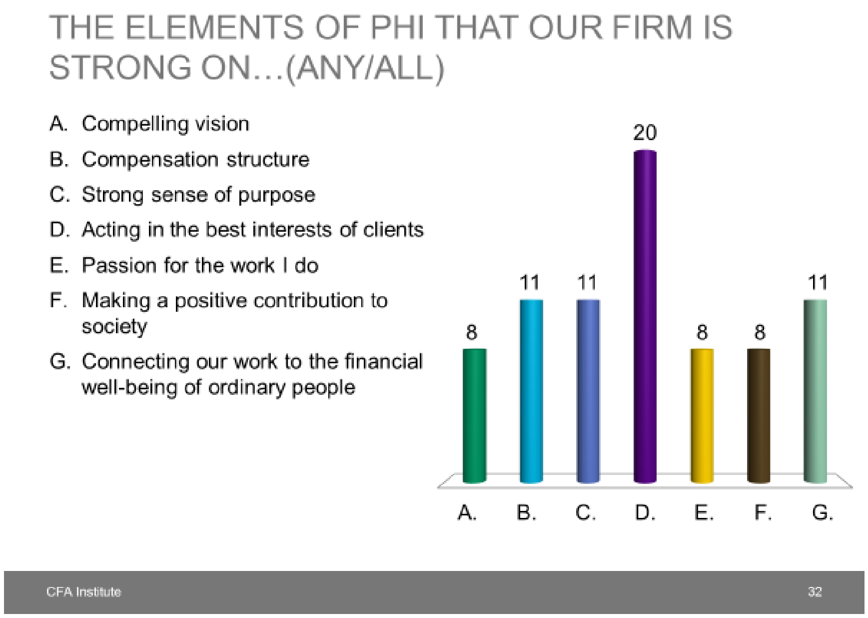
Sadly, over half of the investment professionals in the pilot survey (N = 1486) had low phi scores. (And 13% had NO phi!) Given the evidence that high phi contributes to commercial success and employee engagement, firms should jump on this bandwagon. Right? (CAR offers the phi-agnostic to interested firms at no cost.)

Some have. One of the best firms that we (FCG) know—we call them "Focus Elite"--learned about the phi-agnostic and eagerly signed up for it. (Did I mention it's free?) CAR crunched the numbers and came back with these results:



No surprise, the "Focus Elite" firm rocked it. Their high phi score more than doubled the number for the industry. And, their overall score was excellent. High phi firms do exist. And in the case of the firm shown here, their strong culture and superb leadership deliver excellent investment results. We are eager to collect more data, especially from our Focus Elite firms who presumably should have high levels of phi, given similar levels of strong leadership and culture.

Moving from industry averages on phi to specific elements, we polled a roomful of CFA charter holders in Toronto during a presentation on phi. The 40 attendees were asked to identify which elements of phi were alive and well at their firm.



The strongest response was "Acting in the best interest of clients," but only 50% of the attendees felt that was true at their firm! (The phi research from CAR indicates that only 38% of investment professionals "believe that their organization is acting in the best interests of their clients.") Clearly, from these results, the industry has not embraced phi yet.

Skeptics may read this and think, "Damn straight! The Almighty Dollar has ruled for a long time, and I'm not changing my bets. Money motivates. Besides, good accountability requires a little fear in the organization. Workers need to know that they'll lose their jobs if they don't perform. So, I'm still a carrot and stick guy."

Here's the danger in doubling down on this view. In a word: millennials. Waving around carrots and sticks has far less influence on them. Gallup calls it, "Purpose over Profits." In their research, they found millennials are deeply interested in meaningful work and doing good in the world. Additionally, millennials are far more likely to leave a bad culture (read: fear and blame) than the prior generations (Xers and baby boomers). To attract and retain top young talent, the older generation must adapt to a new world. One where purpose trumps profits.

A second danger in trotting out carrots and sticks is the advent of knowledge work. Dan Pink writes convincingly about this shift in *Drive*. Extrinsic motivators are effective for industrial work, like assembly lines. Give workers a bonus for making more widgets and they'll produce more widgets. Unfortunately, this approach—more carrots—doesn't work well with knowledge workers. In fact, it can backfire. A simple study with children and reading illustrates this point. Two groups of children were asked to read books. One group was paid to do it. The other simply read for pleasure. Both groups successfully finished their reading assignments. The lesson came after the study was completed: The paid readers refused to read unless they were paid. The other (nonpaid) group continued reading because they had learned that reading was fun. The lesson was clear: If you train people to think that an activity is only worth doing if it is rewarded, then they'll insist on a reward. The key variable here is intrinsic versus extrinsic rewards. Intrinsically, reading is fun, so we naturally will do it, regardless of an extrinsic reward. But if we link reading to extrinsic rewards—like money—then we feel cheated if we aren't paid for it. The investment world has trained a whole generation of workers to feel that investment work must be highly rewarded. This causal connection exists even though a strong motivator for investment workers is "the nature of the work itself." We have talked to countless investment professionals who say, "This work is fascinating. I'd be doing it for myself even if I weren't paid anything." (In other words, investing their own funds privately would be satisfying.)

Dan Pink, Frederick Herzberg, and now Suzanne Duncan (CAR) have shown conclusively that a shift from extrinsic to intrinsic improves motivation. In Pink's view, the biggest intrinsic motivators are:

1. Purpose: doing something meaningful to make a difference
2. Autonomy: freedom to achieve the task in one's own chosen fashion
3. Mastery: continually improving, making progress towards greater excellence

The phi-agnostic emphasizes purpose but includes autonomy and mastery as well. Future leaders of investment firms would be wise to shift their mindsets from extrinsic to intrinsic motivators. Otherwise, they risk losing valuable talent. So, step away from the carrots and sticks…and bring on the purpose, autonomy, and mastery.