Helping Investment Leaders **Leverage Their Talent**

The A.R.T. of Tribal Peace:

Effective Collaboration across Silos

Appreciation: *an increase or rise in value. Grateful thanks. Careful evaluation,* ***noticing****.*
Respect: *respect gives a positive feeling of esteem or deference for a person, as in* ***listening*** *closely.*
Trust: *reliance on integrity and ability;* ***confidence*** *in a person.*

By

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The A.R.T. of Tribal Peace: Effective Collaboration across Silos

This white paper includes polling results and interviews from two presentations to large audiences of professionals from the sales/marketing and operations/support functions within asset management firms.

- *Institutional Investor Senior Delegates Roundtable, January 24, 2013 Avon, Colorado*
- *AIMSE 20th Annual Canadian Conference, January 30, 2013 Toronto, Ontario*

We wish to thank all the participants for helping with this project. All feedback is welcome!

Cutting to the Chase

You're busy, so here is the formula for effective collaboration. Simple and easily remembered:

1. I see you
2. I hear you
3. I trust you

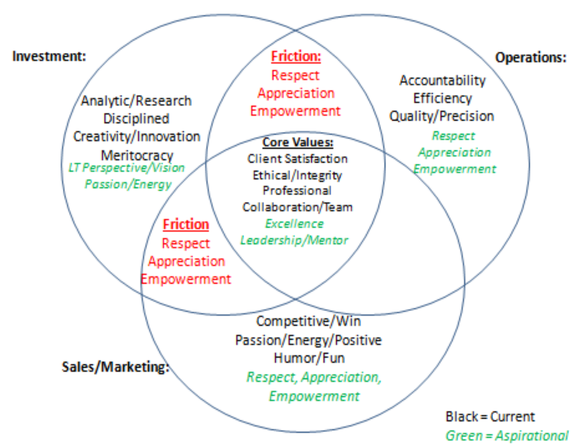
This simple mantra, if understood and practiced, will provide the foundation for effective collaboration within an asset management firm. It will build strong culture. The remainder of this paper explains how.

Who Cares?

"Who cares?" is a fair question. Does it matter if the different functions in the firm get along?

Over 95% of employees with investment firms globally from any of the "*tribes*" (e.g. investments, sales/marketing, and operations/support) believe that effective collaboration is important to firm success. When there is tension between the tribes, it often leads to poor communication, which in turn leads to poor execution. The result: unhappy stakeholders.

FCG has written a great deal about these different tribes within an asset management firm.[i] Our research has shown that the *"tribes"* have overlapping values: clients, ethics, collaboration, professional. The diagram below shows the values that are core to the entire asset management firm and which ones are core to each tribe.



We have described these results in detail, but here we are focused on the friction areas between Investments and the other two tribes (in red). In simple terms, the data are telling us that both the sales/marketing tribe and the operations/support tribe want greater respect, appreciation, and empowerment from the investment tribe.

The typical response from investment teams is: "yeah, but what about the way we want to be treated by them!" Fair point, but there are two factors for consideration here: 1. in many investment firms, the PM's and research staff are seen as the "ruling class" who have more ownership, higher compensation, and greater decision rights; and 2. when investment teams are asked if the tribes are more alike or dissimilar, they overwhelmingly respond "alike." Our conclusion is that this can be a blind spot for many in the investment tribe.

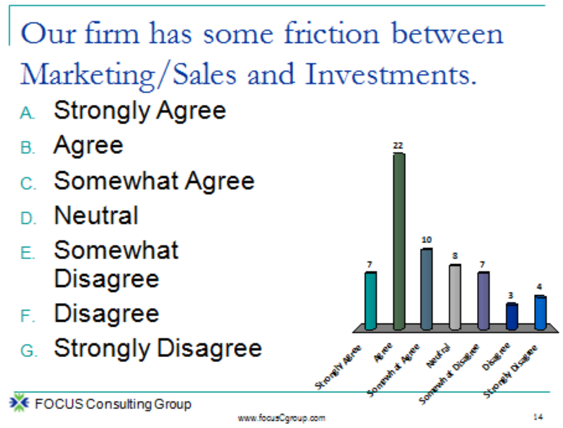
In any event, the data don't lie: the quantitative measures (via surveys) and the qualitative measures (via interviews) align around the view that respect, appreciation, and empowerment are a root cause of friction in asset management firms.

Curiously, when you meet with and interview the investment professionals at various firms they are very outspoken about the need for values such as: respect and appreciation. We have yet to find the PM or analyst who says, "It's okay to treat the other tribes like crap."

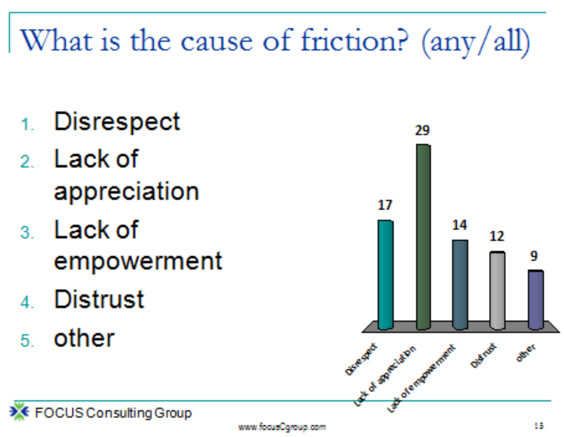
This presents a bit of a puzzle. Our data tell us that something exists regarding a lack of respect and appreciation, but there are no guilty parties! None of the investment team readily admits that, "yes, we have been treating the other people poorly and need to change."

An Epidemic?

How many firms complain of friction? Fortunately, our work allows us to poll large audiences of investment professionals to get answers to these questions. When addressing a group of 60 professionals from the sales/marketing and the operations/support side of the business, they responded as follows:



Based on this sample of North American asset managers, roughly two-thirds (67%) said that friction exists. And when asked about the cause of the friction, they primarily aligned with the aforementioned data above:



Reflecting on these polling results and our work with clients, we came up with the mantra stated at the outset of this paper:

1. I see you (Appreciation)
2. I hear you (Respect)
3. I trust you (Trust and Empowerment)

The order aligns with the voting:

- Appreciation is the value that drives most of the friction.
- Respect or lack thereof.
- Empowerment and trust and a desire to be seen as contributing to a firm's success.

What follows then is a discussion of why these values matter and why any firm interested in effective collaboration, and strong culture, should pay attention to them. The simple mantra above, once understood and practiced, can serve as a daily reminder to improve relations in the firm.

I See You

People crave attention. From the time we are born we want to be noticed. Anyone with children knows this to be true. If a young child is drawing with crayons, the parent simply needs to watch and the child lights up. The parent does not need to offer false praise—"that's a beautiful butterfly"—but rather genuine attention.

> ***Jim***: *"When my 10 year old daughter plays team basketball, where does she look after making a shot? At me, of course! If I am watching, she is delighted and proud. If my head is down, studying my Blackberry, she is crushed. It's all about paying attention."*

The workplace is no different. We are wired to feel good when noticed. Leaders and managers often miss this simple point: you don't have to praise people, or give them wads of money, to practice appreciation. Just notice them. Just make it clear: *I see you*.

Importantly, the noticing has to be "baggage free." It can't be: "I see you for the lazy, shiftless bastard that you are." It has to be a clean *"I see you*." This involves wiping the slate clean each day and allowing for fresh starts. If you have a genuine issue with a colleague, then address it. Clean it up.

Ray Dalio at Bridgewater Capital calls this "getting in sync." At Focus Consulting we call it "a clearing session." There is danger in letting things fester. The goal is to deal with issues in real-time so that you let them go, wipe the slate clean, and return to a positive frame of mind.

It takes courage to address issues and clean them up. The Ego prefers to hang on to resentments and judgments. If we hang on to them we can feel superior to the other person. This builds the ego while destroying the relationship. Leaders who give in to this temptation, of feeling superior, set their teams up for failure. The research on expectations is clear: people live up or down to expectations.[ii] A leader who sees an employee as a "loser" will typically have the eventual satisfaction of saying, "see I was right!" But at what cost?

So, effective collaboration begins with this courageous act of *seeing* people.

Theologian and philosopher, Martin Buber, called this the "I and Thou" relationship. It involves learning to see co-workers as "worthy others" rather than as means to an end. Indeed, in business relationships we are actually both: a means and an end. This reality is most effective when team members embrace both.

A common phrase used by leaders is that employees are "replaceable parts." And, of course, the truth is that we ARE all replaceable. But these powerful words undermine the value each individual brings to the firm. Leaders are well served to see that everyone matters. *See* each person.

Case in Point

Consider this real-life example from a CEO who doesn't believe in the importance of appreciation and respect in his firm.

In discussing an interaction between a lead PM in his firm and one of his analysts, the CEO said, "I wouldn't spend time worrying about that analyst; he's four layers down in the organization."

- Does that attitude set the young analyst up for success or failure?
- Have they wasted their time and energy developing this young talent only to pre-determine his resignation?

Not surprisingly, the executive assistant to this CEO has said on several occasions, "I'm invisible to him." Understand that this CEO is not a monster. He has many wonderful qualities, gives large amounts of money to charity, is a good father and husband, and cares about the culture he is creating. But he has a big blind spot around practicing appreciation: the act of really seeing his team members.

Effective collaboration begins with the practice of genuinely saying to your colleagues, *"I see you."*

I Hear You

If effective collaboration begins with appreciation, it must be followed by respect. As the earlier chart shows, nearly one-third of the audience said that friction between the tribes was caused by disrespect. Our work with asset managers confirms this. Respect is a hugely important and emotionally charged value. The biggest blow-ups we see involve one or both parties feeling disrespected.

If respect is important, what does it look like? Focus Consulting Group's research shows that the single most important ingredient in feeling respected is listening. When people feel heard, they feel respected. (Note: respect is NOT dependent on the parties agreeing, simply hearing one another.) So, if the first step in effective collaboration is seeing the other party, the second is taking time and effort to listen carefully.

Many investment professionals are poor listeners. A simple way to measure this is to count the number of times they interrupt one another in a conversation. We often observe investment meetings as part of our consulting work and see this pattern of "already listening." As one person speaks, the other person interrupts without fully hearing what the first person was saying. Sometimes this leads to humorous outcomes, like being in "violent agreement" with one another. Two people will be so obsessed with their own position, and desire to express it, that they don't realize the other person is saying the same thing!

Paraphrasing is a simple exercise to test if you are listening. Try to summarize the other person's message in your own words. What did they say? Did you feedback to them the accurate content? The practice of paraphrasing can be seen as a profound act of respect: I hear you. And I'll prove it by showing you.

When ill-will exists between two people in a firm, this process of really listening can be the single most important way of repairing the relationship.

It's really so simple: I see you, now I hear you. Simple, not easy, and relatively rare in corporate life, but practiced well it can have a profound impact.

***Keith**: "There is a baseball story about three great umpires being interviewed. The reporter asks each what makes them so great. The first responds: "I call 'em like I see 'em." The second responds: "I call 'em like they are." The third replies: "they ain't balls or strikes until I call 'em." Can we suspend judgment (already listening) until we hear the other persons view in its entirety?"*

I Trust You

Trust is a deep and fascinating subject. There are libraries filled with books written on the topic. The application of trust in our mantra is simple. It comes from decades of research on game theory. (Specifically, Prisoner's Dilemma[iii]) Simply stated: lead with trust.

In other words, be proactive in extending trust to your team mates. Assume an attitude of win/win when you engage them. Be willing to take the risk and be somewhat vulnerable in the interaction. The payoff can be immense.

A simple example might be agenda setting for a meeting. Leading with trust might look like asking, "How would you like to design the agenda?" This is an open question that allows the other party to assume some control. They get first crack at setting the agenda. You trust them to be reasonable.

By contrast, leading with distrust would look like, "I've already drafted an agenda; I think it should work well for what we are trying to do." This latter approach suggests that you don't trust the other party to be fair in their approach, so you decide to take control right from the start.

Game theory suggests that "leading with trust" is the best opening move for effective collaboration. If you open this way you are sending a signal: I am willing to trust you. The other party, then, should respond in kind: the tit-for-tat strategy of Prisoner's Dilemma. If you trust me, then I will trust you. If you cooperate, I'll cooperate. And on and on it goes to a mutually successful outcome.

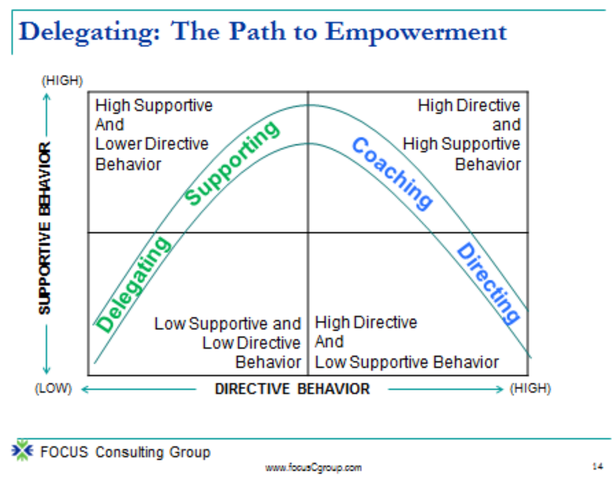
Another way to think about this aspect of trust is "giving the benefit of the doubt." I can choose to hold the belief that you are a trustworthy person. For example, if you are late for our meeting, I can assume something unavoidable came up that prevented you from arriving on time. (As opposed to thinking that you don't value my time and dis-respect me.) If you are my boss and you ask me to work on a report, I can assume that you are preparing for an important meeting and need the report to feel prepared. (As opposed to, "here we go again, more busy work.")

Assuming good intention is giving the benefit of the doubt. Later we may find that we were wrong, but initially giving the benefit of the doubt creates the opportunity for a win/win outcome. Not giving the benefit of the doubt immediately closes the door to win/win.

> ***Michael**: "When I got to a higher level of baseball, I (a pitcher) and my catcher were brought together after years of honing our skills separately. We had been "bred" to be highly competitive and confident in our respective talents. When I was pitching semi-pro, following instructions from the catcher was contrary to my own experience. Trusting his calls and using the time between innings to discuss pitch selection and how I felt that day fostered a great relationship. It didn't feel natural at first, but the trust allowed me to focus only on pitching, to simply relax into the execution. The result, more strikes in less time – which benefitted the entire team. This level of trust truly drove a team win/win."*

Trust and empowerment, the third "friction" point in the chart above, are closely related. If I trust you, I am more likely to delegate authority to you. As I delegate more authority to you, you feel more empowered and more respected. The foundation of trust becomes stronger.

(Note: leaders sometimes make the mistake of NOT increasing the employee's authority and responsibility as the trust grows. The urge to micromanage and control can be hard to release for some bosses. The solution is often to have a candid conversation about decision rights and delegation, with a timeline for when and which decisions will move from the boss to the employee. Consider the model for increasing empowerment below.)



Empowering employees through delegation shows that you trust them.

Practicing the A.R.T.

> **I see you**
> **I hear you**
> **I trust you**

Armed with a deeper understanding of the mantra, you can use this simple formula as a way to prepare for meetings with colleagues from any tribe. It is especially useful for meetings with difficult individuals (Red X's[iv]). We have tried to design the "see-hear-trust" formula so that even with the most challenging individuals, it can still be applied. Try it now. Imagine someone in your organization who is hard to work with. Bring their face to your mind's eye. Let the reactions surface. If you are, say, angry with the person, let yourself feel that fully.[v] Then use this process.

First, ask yourself,

- Could I just let go of my baggage (past issues) with this person and grant them a fresh start? (Who knows, maybe they had a complete breakthrough in their personal therapy and are really different!) Just for right now, could I see them with fresh eyes? Drop my expectations?
- If you don't have any past issues with the person, the task is easier: Can I see this person as they are right here, right now? Can I let go of stereotypes? ("This guy went to Harvard so therefore…") Can I give them my full attention?

Notice that these questions are simply choices. Yes or no. You can choose to hold on to old resentments. Or you can choose to drop them. It really is a choice. The trick is to let yourself feel your reaction fully and THEN choose to let it go.

Second, ask yourself,

- Am I willing to listen carefully to what this person says? Am I willing to put aside my "already listening" and pay close attention to what they are actually saying?
- Can I repeat back to them the essence of what they said?
- Can I listen to the very end?

Listening carefully to someone is an act of genuine compassion and respect.

Third, ask yourself,

- Am I willing to lead with trust? Am I willing to make myself a little vulnerable in the interest of showing good faith? Am I willing to assume the best, to ascribe positive intentions to them?

These deeper questions underlie the simple mantra. If you practice this more involved exercise, outlined above, eventually you can return to the very simple formula:

1. I see you
2. I hear you
3. I trust you

You will have developed a deeper understanding of what these short phrases mean.

Summary

Most investment firms complain about silos. The talented people in various functions fail to communicate effectively or at all. The benefits of effective collaboration are lost. Culture suffers. Results suffer. And much has been written about how to fix the problem. The trouble is that investment professionals are busy people with demanding jobs (and clients!) and the solutions offered in books and training courses are too involved to help in the heat of battle.

We offer a simple but powerful formula for addressing the major causes of friction that damage effective collaboration. Taking a few moments each day to review and practice the "see, hear and trust" formula will pay big dividends in breaking down silos, building better collaboration, and improving decision making and execution.

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James Ware, CFA is the founder of Focus Consulting Group, a firm dedicated to helping investment leaders leverage their talent. James is also a highly acclaimed industry author and international speaker on the subjects of investment leadership, culture and building high performing teams. A frequent keynote speaker at CFA Institute, Mutual Fund Educational Alliance, Investment Adviser Association, U.S. Institute and other major industry conferences, James is recognized for his insightful, inspiring and entertaining presentations. His recent books, "Investment Leadership: Building a Winning Culture for Long-Term Success" (Wiley, 2003) and High Performing Investment Teams (Wiley, 2006) identify those elements of leadership and teamwork that lead to sustainable success for investment firms. James has 20 years experience as a research analyst, portfolio manager, and director of buy-side investment operations. He has been a guest lecturer on the topic of investment firm management at the Kellogg Graduate School of Management at Northwestern University. His educational background includes a Masters in Business from the University of Chicago and a degree in philosophy from Williams College, where he graduated Phi Beta Kappa.

Keith Robinson is the Managing Director of Focus Consulting Group and brings over 27 years of global

investment experience to his consulting and coaching work at FCG. As an expert in human resource and talent management at Allstate Investments, UBS, and Marsh & McLennan, he was selected to develop a cutting edge leadership development program for Northern Illinois University. His specialties include: Management and Leadership Development, Education and Training, Organizational Design and Performance, and Business Strategy. He is the co-author of the highly acclaimed white papers, "Investment Tribes" and "The Red X – Managing the Outliers in an Investment Firm" co-written with Jim Ware, and was recently published in Smart Biz magazine for his work on "Managing the Human Portfolio." Keith holds an MBA from University of Illinois and graduated Summa Cum Laude with a business degree from Western Connecticut.

Michael Falk, **CFA**, is a partner of Focus Consulting Group and is passionate about the singular principal

of providing value-added asset consulting. He is also partner and chief strategist on a global macro hedge fund, and was a former CIO in charge of manager due *diligence and asset allocation for a multi-billion dollar advisory. His background includes* extensive asset allocation research and portfolio development expertise along with a multi-faceted understanding of behavioral finance and retirement issues. The asset consulting perspective acknowledges that the wisdom of crowds can denigrate into madness at times. Assets should be managed with the serenity to accept the market's realities; the courage to pursue its opportunities; and the ongoing pursuit of wisdom to understand the difference. Aside from his consulting work, Michael is part of the CFA Institute's Approved Speaker List, a contributing member of the PDDARI group within the Financial Management Association (FMA), the Vice Chair of the Profit Sharing 401(k) Council of America's Investment Committee, teaches as an adjunct professor at DePaul University in their Certified Financial Planner (CFP) Certificate Program as well as on behalf of the CFA Society of Chicago and is frequently quoted in the financial press. He graduated from the University of Illinois with a B.S in Finance. He also holds the Certified Retirement Counselor (CRC) designation.

[i] See our "Investment Tribes" paper on the website: www.focusCgroup.com

[ii] The classic experiment on this was performed in a documentary called, "Eye of the Storm." In it, third graders in the Midwest were subjected to a teacher's "prejudice" experiment after the murder of Martin Luther King, Jr. The teacher was so incensed by the stupidity of racism that she wanted to teach her class of young—all white—students what it felt like to be discriminated against. She set up a simple experiment in which the blue-eyed kids were considered "better" than the brown-eyed kids. She was clever in saying things like, "George Washington had blue eyes and he was the father of our country." She made her case to the classroom that blue-eyed kids are better. She let the blue-eyed kids sit in front, let them go to lunch first, and gave them longer recess time.

Within a few hours, the brown-eyed kids were showing clear signs of depression and shame: moping, heads down, slow movement. Unwilling to look the teacher in the eye. Concerning performance: the brown-eyed kids tested inferior to the blue-eyed in math and verbal skills (using flashcards).

In the experiment, the teacher then reversed the situation. Saying that she had made a mistake, she announced that it was actually the brown-eyed kids who were superior. The same results occurred in roughly the same time frame, only now it was the blue-eyed kids who were moping and unable to excel at math and verbal skills.

These kinds of experiments have been repeated in various forms, with the core idea being "we live up or down to expectations." Another experiment of note was conducted in a school system in which the best teachers were placed with the best students. The objective was to see if standardized test scores would improve with the "cream teaching the cream." Indeed over the next several semesters, test scores from the "chosen" classes outpaced the control groups. Here's the catch. The teachers and students in the "chosen" groups were randomly selected. The only difference was the "expectation" that they—both teachers and students—were superior.

[iii] When we play the "Prisoner's Dilemma" game with investment professionals, we label cooperative/collaborative behavior as "green" and competitive/selfish behavior as "red." Game theory supports the idea that there is a time and place for each kind of behaviors: green and red. Within organizations that promote collaboration and teamwork, however, red behavior is counter-productive. And it will lead to more red behavior: red begets red. So, when dealing with co-workers in a collaborative setting, the advice from game theorists is clear: lead with green. (The collaborative, win-win strategy) The response that you get from your co-worker determines your next move: if green, then play more green. (build trust) If red, then confront and inquire. That is, state your concern to the co-worker and deal with the issue directly. This conversation might look like: "Hey, that exchange we had felt red to me. Can you explain your intentions?" Many times, an honest examination of the exchange will clear up the issue and uncover a misunderstanding. If it doesn't and the behavior still seems red, then you might say to your co-worker: that still seems like you are playing red, and that impacts the trust in our relationship. This notion of "leading with green" is in no way meant to seem naïve or Pollyannaish. It makes good sense to show good faith in your working relationships. To lead with a win/win intention. But if you get red behavior back, then game theory says, red requires a red retaliation. The practical application of the Trust portion of ART is to ask yourself: am I leading with behavior that builds trust?

[iv] See our writings on the topic of The Red X, by which we mean the individuals who are very talented but often hard to work with. www.focusCgroup.com

[v] Note: don't think about person/situation, just feel the emotion. Thinking takes you into more elaborate stories and can fuel the feelings. Rather, just allow yourself to feel what is actually there. Find where the emotion is located in your body, "my shoulders get tense" or "my stomach churns." Put your attention there and feel it fully. For more on this technique, go to http://www.sedona.com