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Building a Strong Investment Culture

By Jim Ware, CFA®



INVESTMENTS & WEALTH INSTITUTE®
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Investment culture has become accepted as a key ingredient to success. In surveys around the world, 97 percent of investment professionals agree with the statement, “Culture is important to our firm’s success.”¹ (Given the nature of some investment professionals, we suspect the 3 percent are the iconoclasts who simply can’t agree with any consensus.) When the logical follow-up questions are asked—Why? What are the benefits?—two answers repeatedly stand out: (1) talent (attracting and retaining) and (2) decision-making (improving it). These answers make sense. Investment professionals want to work at reputable shops that have strong investment cultures and good decision-making. We summarize the benefits of culture in the word, “workability.” In other words, strong culture means an environment where one is able to do good work. There are minimal distractions and red tape. There is a level of professionalism such that office drama is kept to a minimum.

Regardless of size, strong family office cultures share these core elements:

Purpose: A clear and compelling reason for existing. Meaningful work. Belonging to something that is bigger than oneself. Making a difference.

Trust: Sufficient levels of trust in one’s leaders and colleagues. Having each other’s backs.

Values: A set of values and behaviors that are unique to the family office challenges.

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PURPOSE

Family offices tend to be much stronger about purpose than asset managers. Most family office workers are closer to the end clients than, say, active equity managers for pension funds. In fact, many staff members at family offices have left larger asset managers specifically for this reason: greater satisfaction in seeing the impact of their efforts. For example, one portfolio manager left a large hedge fund to work at a family office for 33 percent of his prior compensation. The reason? He wanted to feel purposeful in his work.

This desire for purpose may be driven by the influx of millennials in the work force who are hungry for meaning. Or maybe investment leaders have read Dan Pink’s book *Drive*, in which he says, “The most deeply motivated people—not to mention those who are most productive and satisfied—hitch their desires to a cause larger than themselves” (Pink 2009, p. 131).

Or perhaps, they’ve read Simon Sinek’s book *Start with Why*, in which Sinek says about workers, “Deep inside, they all love being a part of something bigger than themselves” (Sinek 2011, p. 63).

Sinek (2011, p. 80) goes on to pose an interesting challenge to all of us:

The goal of business should not be to do business with anyone who simply wants what you have. It should be to focus on the people who believe what you believe. When we are selective about doing business only with those who believe in our WHY, trust emerges.

Family offices in particular are sensitive to this aspect of purpose. Because trust is arguably the most important element in the client relationship, savvy family offices match their purpose and core values with those of the clients. Many family offices report that the level of trust that exists with the client is more important than investment returns, and shared purpose is a way to build trust.

So, purpose, if done correctly, reinforces the second factor above: trust. We’ll say more about that shortly. Purpose is fast approaching “fascinating work” as a key motivator for professionals. In other words, the main motivator for investment professionals—other than money—has been the work itself, followed by clients and colleagues, and purpose, in that order. But now investment leaders are responding to the work of Pink, Sinek, and others and creating broader statements of meaning: Why is investment work important?

What broader value does it provide? An example is a large asset manager in the United Kingdom that has discussed and developed the following statement: “Our purpose is to help people achieve their long-term financial goals, making a difference in people’s lives, in our industry and in our community.”

Another purpose-driven organization is Teacher Retirement System (TRS) of Texas in Austin. The investment team is passionately committed to providing good retirement income to the teachers of the state. Many of the staff members will tell you: “I could make more money working on Wall Street, but I really care about the teachers who taught my kids. I want to do right by them.” Clearly, purpose motivates these investment professionals. Their WHY and the WHY of their clients (teachers) are completely aligned, as Sinek suggests. And TRS has had stellar results.

A family office on the East coast is committed to building a learning culture for all its employees. It has designed a five-year plan for moving its culture from the current state to one in which “employees will see improved motivation and ambition of our employees to learn and grow and develop in a supportive environment.” They are aiming for a culture that promotes “safety to excel at their work.”

TRUST

Trust is the platform on which good culture operates. Trust drives a key factor in high-performing family offices, namely psychological safety. This term refers to the level of comfort staff members feel in being authentic at work. Research from an extensive study at Google indicated that its top teams shared this factor: safety. Importantly, safety does not mean, “safety to be complacent” but rather “safety to excel.” Trust is a skill. When professionals understand the components of it, they can commit to becoming increasingly trustworthy. Six factors that influence trust are the following:

1. Alignment (shared purpose, as discussed above)
2. Benevolent concern (win/win, empathy, we care about each other)
3. Capabilities (competence, ability to deliver promised results)
4. Integrity (our words and actions align, we do the right thing, we keep confidences)
5. Predictability (consistency, reliable over time)
6. Vulnerability (humble, willing to apologize, willing to admit mistakes)

When teams have trust issues, it’s useful to trot out these factors and ask: “Which ones are causing the trust issues? That is, which are leading to the distrust?” Sometimes a firm’s compensation system pits colleagues against each other. Sometimes a person is in the wrong role, so colleagues think, “He’s a good guy, but he’s not good at his job, so, I don’t trust his work product.” Still other times, a colleague is inconsistent. She is usually trustworthy, but occasionally there are significant lapses. If sufficient openness and candor exists on a team, then honest discussions can help identify and clear up the trust issues.

VALUES

Values come in two varieties. There are the traditional values that constitute the DNA of the industry and then there are the unique values that allow a particular firm to excel. The traditional family office values are the following:

1. Client satisfaction
2. Ethics/Integrity
3. Teamwork
4. Excellence

Regardless of where a family office operates or the products it offers, these basic values are common to all functions in all firms. Or they should be. (The CFA Institute has been a strong advocate of the first two in its mission.)

Over and above these core values, each major “tribe” in the investment firm—(1) research and portfolio management, (2) sales, marketing, and client facing, and (3) support functions, such as operations, information technology, legal, financial, compliance, etc.—has a unique set of additional values that fit within the firm. Our research has identified these additional values, as shown in table 1.

Investment cultures can start to fray when the natural tensions that exist between the tribes flare. For example, every investment leader has seen times when compliance and marketing butt heads. But core values represent common ground. If two tribes are squabbling, a skillful leader will remind them of the “meta-values” such as client service or teamwork to help get them back in alignment.

The family offices with stronger cultures have spent time identifying and defining their values. They have avoided the “optical fallacy” of hiring a public relations firm to come in and tell them about their values and how to market them. For example, the value of client satisfaction is readily embraced by family offices, but some go the extra mile to define it carefully, and some leave its precise meaning a mystery. One family office went on for years with each portfolio manager interfacing with clients in very different ways. As the principals

Table 1

VALUES UNIQUE TO EACH TRIBE

Tribes within the Investment Firm	Additional Values (Satellite)
Research and portfolio management (and trading)	analytic/research, disciplined, creativity/innovation, meritocracy
Support functions	accountability, efficiency, quality/precision
Sales, marketing, client facing	competitive/win, passion/energy/positive, humor/fun

aged and began training the second generation, a predictable concern arose: “What is our approach to client service?” This family office now has carefully defined the value of client satisfaction by articulating exactly the process for client meetings.

CULTURAL TRENDS: NEW CHALLENGES

As the investment world changes dramatically, new challenges arise for family offices committed to strong, healthy cultures. The most commonly cited challenges are the following:

1. Developing young talent
2. Providing autonomy
3. Integrating cultures after mergers or acquisitions

A major change for firms everywhere is the demand from millennials for training and development. If leaders ignore this request, they are likely to lose talent. Young workers want frequent contact with their managers, challenging growth opportunities, coaching and mentoring, and training and development. Many senior principals at family offices shake their heads and comment, “That’s not how it was when I first came into this business.” True. But locking into this position of “they should do it the way I did it” can be costly. In the new world, millennials vote with their feet. On average they stay at firms for only about two years. Keeping them involves listening to them and negotiating a workable arrangement. Senior leaders may not like the new world, but they had better adjust to it or risk losing good people.

Another cultural issue in the new world is autonomy, which relates to the issue of work-life balance. Younger workers, born and bred in the world of tablets and smartphones, don’t understand why they can’t work where and when they want to. The idea of face time seems old-fashioned and pointless to them. And many firms have moved to results-only

work environments (ROWE), where the only thing that matters is turning in good work. Family offices run the gamut on this cultural choice. Some still emphasize face time and make no apologies for it, and others have moved to ROWE. Each approach can work. But again, the danger with a face time culture is you may lose talent because the firm down the street offers ROWE.

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Finally, in today’s environment, many family offices are acquiring other firms or merging. Careful due diligence is required to make sure that there is a cultural fit. One of the fastest ways to destroy an otherwise good culture is to combine it with a toxic one—or one that is simply different, though not necessarily bad. Too often the due diligence is superficial and the Hatfields are joined with the McCoys. But even reasonably good fits require thought and effort to achieve a seamless integration, especially if there are geographical differences (new locations). In these cases, the senior people need to negotiate the meta-culture of the new entity. In other words, what are the overarching elements of culture that all functions and locations must align with? It’s acceptable to have different

locations exhibit unique values, but not to violate the meta-values. An example is a family office that has locations in Long Beach and Manhattan. The dress code and vibe in each office is noticeably different: flip flops and shorts in Long Beach (on non-client days), suits and ties in Manhattan nearly all days. But at the meta level both firms operate with a single culture statement and purpose.

SUSTAINING STRONG CULTURE

The key to developing and sustaining strong culture is vigilance. Strong culture, like a beautiful garden, must be weeded, watered, and cared for. Leaders must understand that it is part of their day job to set the example and to constantly be appreciating workers who model good behavior. Too many leaders are excellent at pointing out flaws but not at rewarding the positive. Research on this aspect of culture is clear: Appreciation is far more powerful as a motivator than criticism. Yes, you must give constructive feedback when appropriate, but learn to spot and reward the right behaviors. And most importantly, the senior team must walk the talk. And when they don’t, they must have the courage and integrity to provide feedback to one another. Strong culture will provide a winning edge for family offices, but, like anything of great value, it does not come without effort. ●

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ENDNOTE

1. Research from Focus Consulting Group surveys conducted in 10 countries with more than 5,000 investment professionals.

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