INVESTMENT TRIBES: UNDERSTANDING THE SUBCULTURES IN ASSET MANAGEMENT FIRMS

By Jim Ware, CFA and Keith Robinson, Focus Consulting Group

"NO CULTURE CAN LIVE,
IF IT ATTEMPTS TO BE EXCLUSIVE"

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Introduction

CULTURE MATTERS

cul·ture noun \ˈkəl-chər\

1: The values, beliefs and behaviors that make one organization unique from another and provide a competitive advantage.

Our research indicates that 93% of investment professionals worldwide believe that culture is important to their firm's success.[I] This statement is true in both the traditional long-only space, and in the hedge fund world. As Focus Consulting Group (FCG) works globally with investment professionals, time and time again we are told that the main benefit of culture is that "culture supports effective decision making."[II]

Evidence from our comprehensive culture study in 2010 reveals that the six most successful firms — dubbed "The Focus 6" for this study [III] — indeed have strong cultures and believe that, in addition to decision making, their strong cultures support these factors:

- Employee engagement
- Entrepreneurial behavior
- Competition and high-performance attitude
- Loyalty and efficiency
- Clear communication
- Team effectiveness

These findings and others are documented in a previous white paper, "Crisis Lessons." What we don't address in that paper are the subcultures that exist in nearly all investment firms.

When groups of investment firm employees are asked, "Are the cultures of operations vs. distribution vs. investments more different or more alike in your firm?" the overwhelming answer (75%) is "different." The remaining 25% who say "alike" are nearly all investment professionals. (Can you say "blindspot"?!)

This paper explores the cultural differences between these three important functions, or *tribes*, within an investment firm:

1. *Investment* professionals: Portfolio managers, analysts, and other strategists who are making the investment decisions.
2. Distribution professionals: marketing, client service, and PR experts who are dealing with all the client-facing and distribution efforts.
3. Operations professionals: accounting, finance, compliance and all support functions within the firm.

[I] From surveys collected at CFA presentations around the world.

[II] Ibid.

[III] See "Crisis Lessons" white paper on our website: www.focusCgroup.com

THE CULTURAL DNA OF INVESTMENT FIRMS: CORE VALUES & BEHAVIORS COMMON TO ALL

Investment firms embrace these four core values (measured as the portion of all employees surveyed):

1. Client Satisfaction.................... 50%
2. Professional 45%
3. Ethical/Integrity....................... 40%
4. Collaboration/Teamwork.......... 34%

The data from our survey of over 60 investment firms tell us that these four values are common to most firms and are spread throughout the three "tribes." Regardless of which function the employee performs – or which team he or she works closely with – these four values will be recognized as core. Defining and living the values will differ from firm to firm, but employees still tend to embrace and support these values as core. Our research further shows that investment employees define "Professional" using the following traits:

- Ethical
- Disciplined process approach
- Well trained and experienced
- Results oriented: delivers on their promises

What we also know about these Core 4 values is that the Focus 6 firms – the six most successful – embrace these same values but to a higher degree (see Table 1 below).

Top firms build stronger cultures by embracing and practicing these values more fully. The key benefits being the ones listed above, especially Effective Decision-Making.

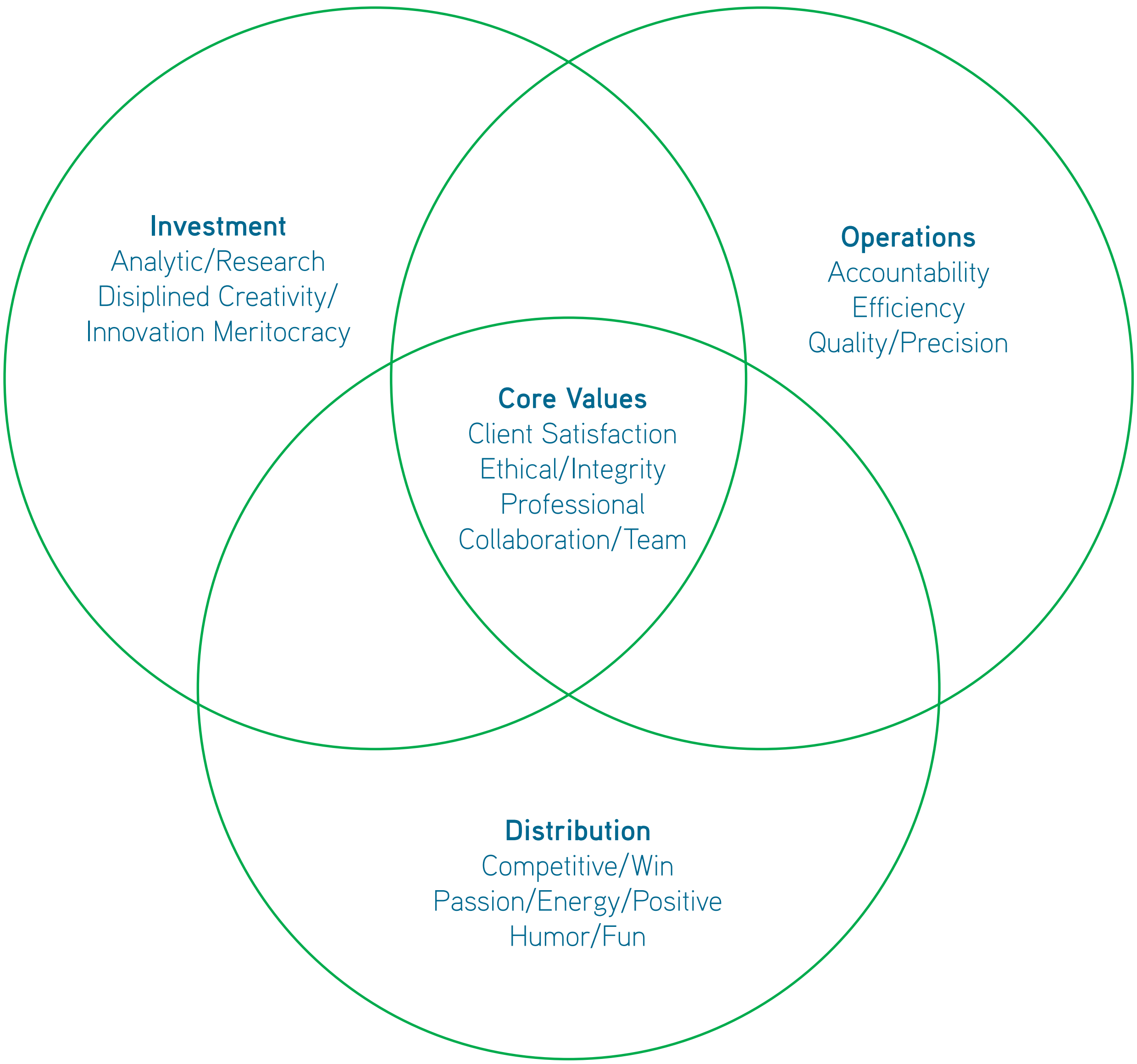
An important step in moving from an undifferentiated investment culture to a "strong" one is the defining of these values. Top firms have not only stated that these values are important but have also defined and modeled them through observable behaviors. A good exercise for clarifying values at your firm is to ask people to think of the employees that best exemplify these core values. Then ask, "How?" What are the specific attitudes and behaviors that define "best practices" for a given value?

TABLE 1 The Focus 6 firms embrace the same Core 4 values as all investment industry firms — but to a higher degree.

VALUE	FOCUS 6 *(average)*	INVESTMENT INDUSTRY *(average,not including Focus 6 firms)*
Client Satisfaction	56%	48%
Professional	55%	42%
Ethical/Integrity	49%	38%
Collaboration/Teamwork	39%	34%

THE TRIBES: HOW DO INVESTMENTS, OPERATIONS, & DISTRIBUTION DIFFER?

We use a Venn diagram (below) to show the four core values vs. the sub-values associated with each tribe. At the center of the figure are the values that everyone in the firm embraces as core; the wings of the diagram show the values that are unique to each tribe. What is especially satisfying about the results in this diagram is that they make intuitive sense. With few exceptions, we look at the values of the sub-cultures and say, for example, "Yes, you would expect the Distribution people to embrace that value."



INVESTMENT SUBCULTURE: EFFECTIVE DECISION MAKING IN A MERITOCRACY

It should be no surprise that the Investment professionals within asset management firms rally around these values:

- Analytic/Research
- Disciplined
- Creativity/Innovation
- Meritocracy

A Myers-Briggs analysis of hundreds of investment professionals reveals mostly INTJ preferences – that is, introverts who like to see the big picture in a creative and logical way and who prefer an ordered and structured work style. This is precisely what the values analysis shows us.

The upside of INTJ as a personality style is confidence. Investment professionals speak of the importance of "conviction." Analysts and PMs must show the appropriate level of confidence for their recommendations, which is precisely what INTJs do. Beware, however, because they can be prime candidates for the overconfidence bias. Pushed to an extreme, overconfidence can appear simply as arrogance, and INTJs are sometimes perceived in this way by the other tribes in the firm. This perception lends itself to conflict and can weaken the fabric of the firm culture. Therefore, it's critical that investment professionals be self-aware about this propensity, and learn how to adjust.

Investment leaders must be sensitive to the core value of meritocracy that lives in the Investment tribe – specifically, regarding money. Investment professionals more than any other group are focused on whether or not their compensation is fair. In the asset management industry, compensation is another indicator of professional success. Simply put, for Investment professionals it's a way to keep score. In fact, the number one distinction between leaders of Focus 6 firms and average investment firms is getting the compensation equation right, so it no longer remains a distraction.

In the asset management industry, compensation is an indicator of professional success – and a way to keep score.

DISTRIBUTION SUBCULTURE: COMPETE & WIN

Not surprisingly, Distribution teams rallied around these values:

- Competitive/Win
- Passion/Energy/Positive
- Humor/Fun

In working with many Distribution teams, these values align with our experience: good Distribution teams are high-energy, competitive, and—yes—often very fun to be around. Similar to the caution with investment conviction, the danger in these high-energy teams relates to performance and their ability to win in the market. When the environment is negative—poor returns and weak markets—their competitive personalities can turn inwards, resulting in a blaming and defensive dynamic.

The strong desire to win in the market, build trust with clients and put their reputation on the line for the organization is a powerful force. Good investment leaders will take care to monitor the Distribution teams and support them during the downturns.

OPERATIONS SUBCULTURE: CREATING SCALABLE PROCESSES AND EFFICIENCY

Again, it should be no surprise that the Operations teams rally around these values:

- Accountability
- Efficiency
- Quality/Precision

As you would expect, the nature of the work in operations involves a high level of attention to detail. Our work with Myers-Briggs and operations professionals shows that many of the operations staff are ISTJ, with a clear preference for detailed work and a logical, orderly world. Efficiency and caution are part of the value system in this subculture.

The nature of the work places a great deal of emphasis on accuracy, which is congruent with the Investment tribe value of discipline. However, the strong desire for scalable process and strict compliance to rules is a source of frustration between these tribes. Investment professionals often view their Operations brethren as too bureaucratic. Leaders are wise to pay attention and not underestimate the potential division this can cause within a firm.

THE PREFERRED FUTURE OR "ASPIRATIONAL" VALUES

In our survey work, we ask not only about the current reality but the preferred future. What would the set of values be in an ideal world? If we could design a truly high-performing culture for a firm, what values would be embraced? In response to this question, all three tribes add two more values to the core set:

- Excellence/Continuous Improvement
- Leadership Development/Mentoring

The former is important to all investment firms but especially to the Focus 6. They embrace Excellence/Continuous Improvement to a significantly greater degree than the average firm. Many firms pay lip service to this value but few actually practice it. For this reason, we identify "complacency" as one of the central dangers in the investment world. Leaders need to keep a watchful eye to ensure that complacency doesn't creep in and become the standard by which employees measure themselves. If firms are not careful, they can become the victims of their own success and start to believe their own press clippings. This is the crack in the door for complacency to enter. In the Focus 6 firms, there seems to be a genuine passion for mastery – that is, the practice of continually sharpening the blade. Dan Pink, author of Drive, has researched motivation among knowledge workers and found that there are three key components:

If firms are not careful, they can become the victims of their own success and start to believe their own press clippings.

- Mastery: The drive to continually improve.
- Autonomy: The desire to choose the work that you do.
- Purpose: The need to engage in meaningful work.

Indeed, our research shows that Excellence/Continuous Improvement lines up with this innate desire to master a given skill.

The other value appearing in the "aspirational" list is Leadership Development/Mentoring. This one is surprising. Not that leadership is an irrelevant skill – clearly, good leadership is vitally important. But the investment industry is notorious for "battlefield promotions," in which the best trader on the bond desk is raised to the position of "Department Head." The danger in battlefield promotions is the misconception that skill or thought leadership can be translated into people leadership and management. Higher levels of sludge often result as the recently promoted professional is neither equipped nor motivated to lead others. [IV]

[IV] "Sludge" is defined as negative behaviors that slow down decision-making and stifle creativity. For more information on sludge, please read Jim Ware's CFA magazine cover story titled "Sludge": www.focuscgroup.com/index.php/download_file/view/49/

Relative to other industries, which seem to recognize the importance of good leadership, investment firms have largely neglected this set of skills. So what do we make of the emergence of leadership as a needed skill? Conventional wisdom in asset management says that a firm is better served by a person who has investment experience than a person who has leadership skills. Despite evidence to the contrary — i.e., many good asset management firms are NOT run by investment people — this myth prevails.

Finally, it seems this view is being challenged by younger employees in the firm who are raising the question: "Don't we need to develop our leaders?" Development, if implemented, will appear to be a thoughtful program, aligned with the firm's vision and strategy, that trains high-potential employees in both the skills of management and leadership. In our view, a good manager or leader would have these basic skills:

• **Self-awareness** – Simply understanding one's strengths and weaknesses. However, achieving a level of self-awareness is anything but common, a phenomenon that prompted Ned Janotta, Chairman at William Blair & Co., to comment, "Investment professionals are not especially self aware." In that vein, Adam Smith wrote: "If you don't know who you are, the stock market is an expensive place to find out."

• **Communication** – One of the most basic, across-the-board skills all of us need to develop and refine during our careers. In one study, "communicating information and ideas" was rated the most important skill for leaders to be successful. Communication is also embedded in a number of other leadership competencies, including "Leading Employees," "Participative Management" and "Building and Mending Relationships." Writing clearly, speaking with clarity and using active listening skills are part of the equation. Communication becomes more demanding and increases in complexity as a leader moves into broader leadership roles. Communication is largely an interpersonal skill for individual contributors. It expands to behaviors such as encouraging discussion, building trust, conveying vision and strategic intent, and influencing others.

• **Learning agility –** The ability to constantly be in a learning mode, to value and seek out the lessons of experience. To develop as a leader and as a person, we need to be active learners. This involves recognizing when new behaviors, skills or attitudes are needed and accepting responsibility for developing them. Learning agility involves learning from mistakes, asking insightful questions and being open to feedback. It includes learning a new skill quickly, taking advantage of opportunities to learn and responding well to new situations. For senior leaders, learning agility is also about inspiring learning in others and creating a culture of learning throughout the organization.

• **Influencing –** Skills that help you communicate your vision or goals, align the efforts of others and build commitment from people at all levels. Ultimately, influence allows you to get things done and achieve desirable outcomes. Influence can look very different at different levels in the organization. Knowing your stakeholders, or audience, is key. Do you need to influence your boss? Your peers? Direct reports? Customers?

Each stakeholder has special concerns and issues, so various groups and individuals will require different approaches for influencing. Early in your career, or in individual contributor roles, influence is about working effectively with people over whom you have no authority. It requires being able to present logical and compelling arguments and engaging in give-and-take. In senior-level or executive roles, influence is focused more on steering long-range objectives, inspiration and motivation

In addition to these core skills, investment leaders need additional competencies depending on which tribe they are leading. Notice how the competencies in Table 2 below—chosen by Investment CEOs and CIOs—align well with the values of each tribe. (For example, the Distribution subculture values competition/winning and has the competency of "drive for results." This value aligns with the competency.)

TABLE 2

So, one answer to the question, "How is your firm continuously improving?" could be: "We are developing our leaders around competencies that align with their roles." We would also add the statement: "We are developing our leaders to be prepared to develop and execute our strategic plan for roles they will take on later in their career." The competencies below outline a curriculum for your various leaders.

INVESTMENT	DISTRIBUTION	OPERATIONS
Client Focus	Client Focus	Client Focus
Building Effective Team	Building Effective Team	Building Effective Team
Integrity and Ethics	Integrity and Ethics	Integrity and Ethics
Priority Setting	Priority Setting	Priority Setting
Strategic Agility	Strategic Agility	Strategic Agility
Creativity	Creativity	Business Acumen
Drive for Results	Drive for Results	Directing Others
Motivating Others	Motivating Others	Organizational Agility
Caring About Direct Reports	Action Oriented Organizing	Planning
Decision Quality	Perseverance	Time Management
Hiring and Staffing	Presentation Skills	Functional/Technical Skills
Managerial Courage	Managing Vision and Purpose	Listening
Perspective		Motivating Others
Standing Alone		Negotiating
Understanding Others		Problem Solving
Composure		Timely Decision Making
Timely Decision Making		Process Management
Process Management		Command Skills
Command Skills		

Red = common to all, Green = common to Investment and Distribution, Blue = common to Investment and Operations

ASPIRATIONAL VALUES

A large portion of our research also focused on determining the values that look toward the future for each of the tribes. The Global Financial Crisis (GFC) forced many firms into a short-term, reactive position to ensure survival and client retention. As the industry emerges from this crisis, each of the tribes looks toward the future to define a better world, and culture is clearly a part of that definition.

INVESTMENT TRIBE: MOVING AWAY FROM "SHORT-TERMISM"

In the investment tribe, the two additional values that appear in the aspirational or Preferred Future view of the world are:

- Long-Term Vision
- Passion/Energy/Motivate

Long-Term Vision is the antidote to the most frequently chosen sludge factor in our database: "Short-term focus." Investment firms around the world constricted during the Global Financial Crisis. They stopped thinking and acting long term and took immediate steps to shore up portfolios and finances. Hence, when they filled out our survey, they responded with the aspirational cry for long-term investment horizons. Effectively they were voicing their desire to return to the appropriate set of behaviors for investors who are seeking long-term prosperity.

The second aspirational value involves the same phenomenon: responding to the crisis. Investors are weary from the long hours and heavy stress of the recent GFC period and are aspiring to recharge their batteries and demonstrate their resilience and creative thinking.

Many firms seek to return to the appropriate set of behaviors for investors who are seeking long-term prosperity.

DISTRIBUTION TRIBE: A LEAD PARTNERSHIP

In the future, the Distribution tribe wants to experience more of these values:

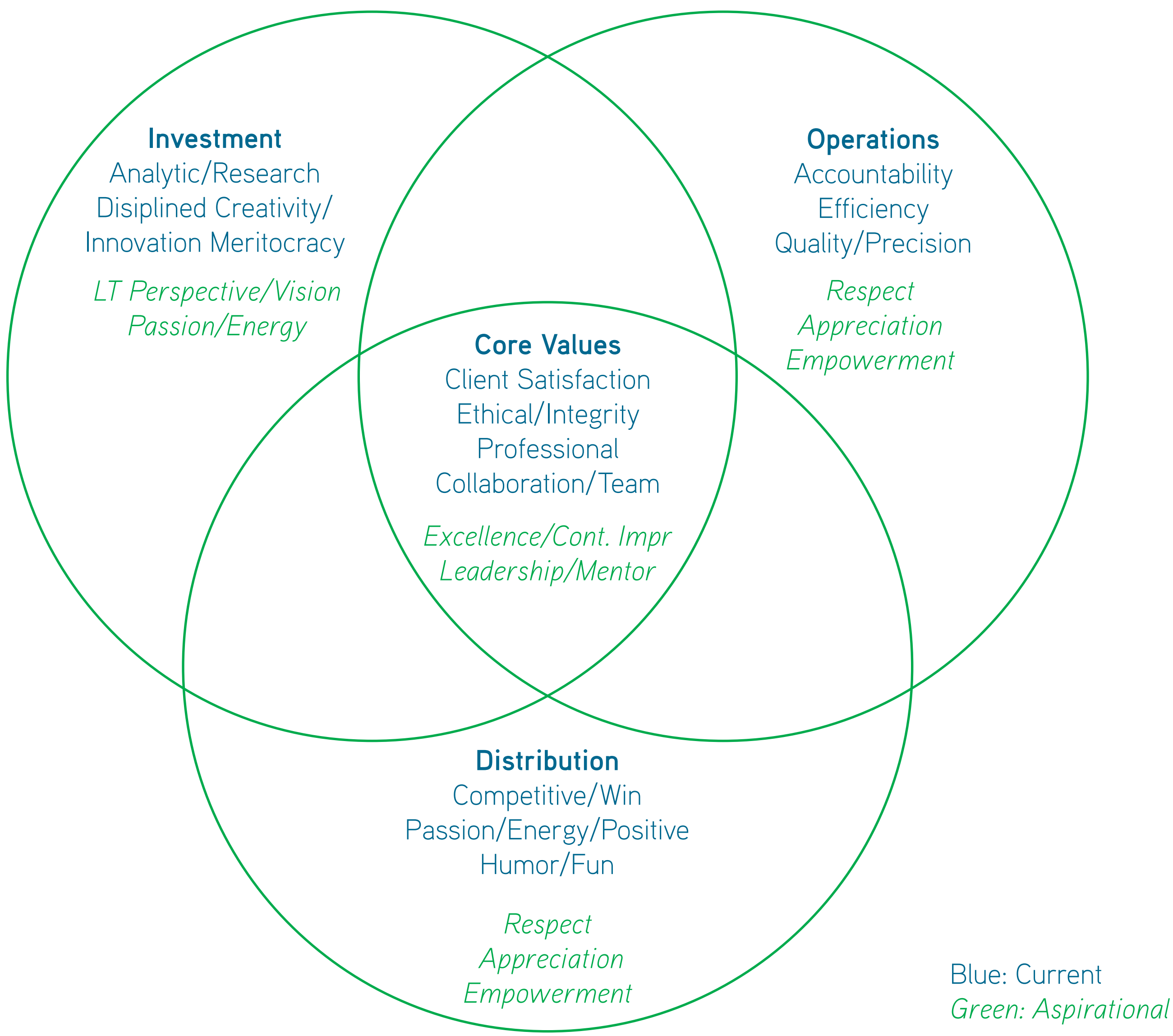
- Respect
- Appreciation
- Empowerment

Their concerns are similar to the concerns of the Operations tribe. An example: A large investment firm in the U.S. recently examined its distribution team from the perspective of how much decision-making authority it had. The review revealed that authority over issues like pricing and product development was largely in the hands of the executive committee, which was made up of mostly investment professionals. When we asked directly about decision-making authority in this firm, the response was that 75% of the partners were investment people – hence, they held the power. This story is common in the investment industry.

Further, a common experience after presenting these findings to Distribution leaders is to hear countless stories from the audience about their own sense of disempowerment or disrespect. The discussion of "upper and lower class" in the investment firm resonates with both Operations and Distribution professionals and stimulates a desire to talk about it.

OPERATIONS TRIBE: A SEAT AT THE TABLE

The Operations tribe also wants more respect, appreciation and empowerment. When we talk to Operations teams about these values, we learn that the dynamic they are describing involves their relationship to the Investment tribe. For the first time, we have statistical data that support our behavioral experience: Operations people feel like second-class citizens in the investment world. The survey results show clearly that the preferred future state for Operations staff would include more respect and appreciation and more involvement in decision-making – a seat at the table, if you will. When we add in the aspirational values, the tribes map looks like this:



FRICTION POINTS: WHERE TRIBES COLLIDE

The diagram above gives us the opportunity to analyze the empty spaces between tribes. The results are natural friction points that materialize when core motivational values are in conflict. As stated above, both the Operations and Distribution groups aspire to greater respect, appreciation, and empowerment. To many investment professionals, these friction points are blindspots. When asked, "Are the cultures of the different tribes basically the same?" Investment people respond, "Yes." In contrast, Distribution and Operations people overwhelmingly respond: "No, they are different."

The key friction point between Distribution and Operations is often in the collision of Competitive/Win with Efficiency/Precision.

Does friction matter in an organization? As we know from high school physics, friction creates heat and energy. On its face this can be a good thing as energy can help us innovate, serve clients better or develop new and exciting products (i.e., the value of Excellence and Continuous Improvement). However, in a knowledge worker environment we also need to have high degrees of Candor and Trust in order to keep the firm from overheating. Too often firms overheat or run too hot to capture the creative energy produced from the friction; sludge builds up and the engine stalls.

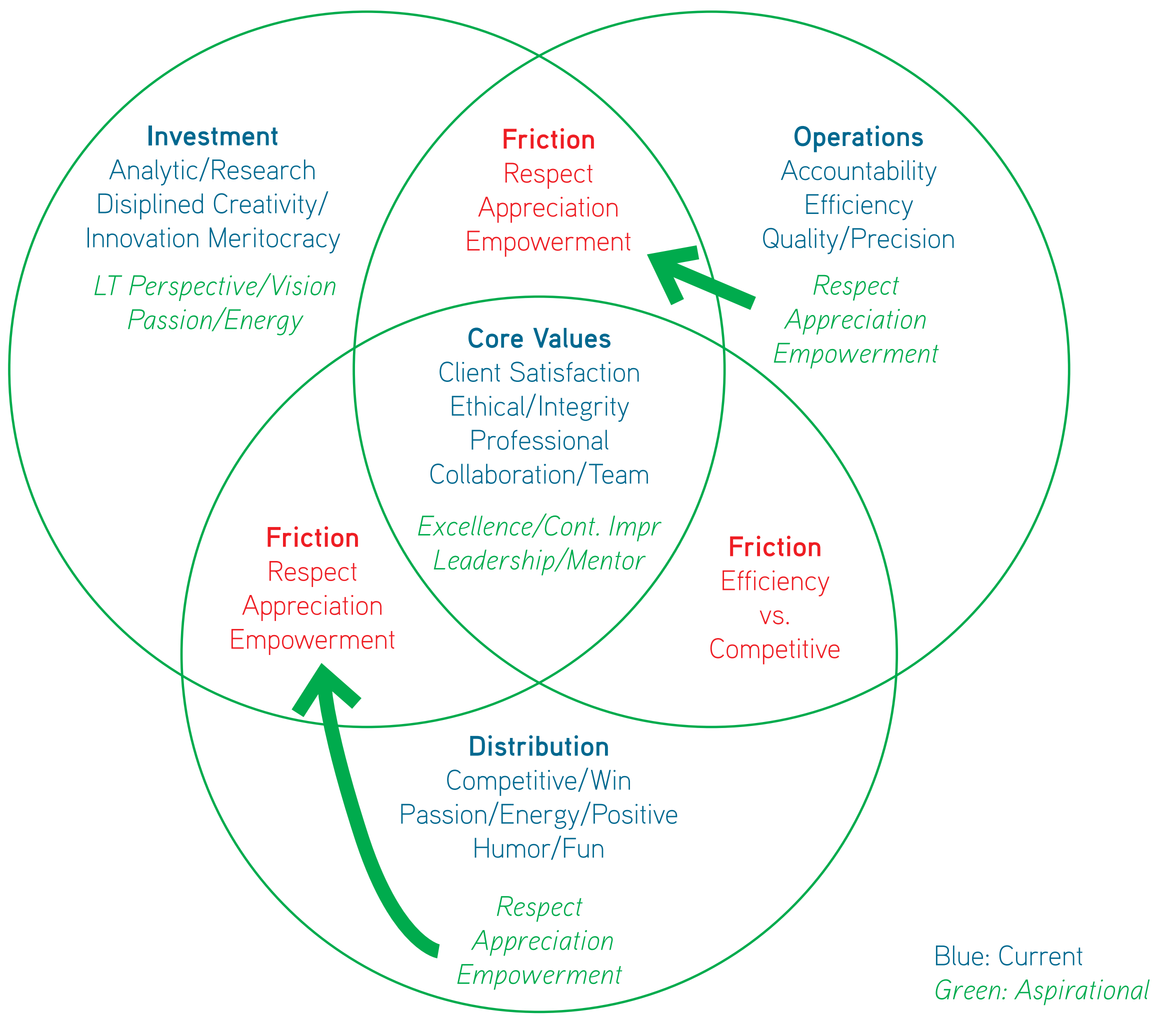
It's a fair question to ask, "Wouldn't friction points exist in any collection of people?" Yes, they would. However, our research shows that overwhelmingly the view at investment firms is that the tribes must work well together or the firm cannot succeed. People realize that investment performance is critical to success, but even the Investment tribe acknowledges that the smooth integration of all three pieces is critical. The data supporting this claim are overwhelming: In both the traditional and hedge fund space, investment professionals are 95% in agreement with the statement: "The tribes must work well together in order for the firm to succeed."

The friction point between Distribution and Operations is often the collision of Competitive/Win with Efficiency/Precision. Distribution people are action oriented and driving for results. The Operations teams are charged with accurate accounting and full compliance. There is a natural tension that develops and if poorly managed, it becomes conflict. Recognition of this dynamic by leaders is critical to successful management and firm success.

95% of those surveyed agree: "The tribes must work well together in order for the firm to succeed."

The natural tension between these two tribes and their values conjures up images from old episodes of the television comedy *M*A*S*H*, in which Hawkeye Pierce was continually joking and playing pranks (Humor/Fun) and Frank Burns was hell-bent on following military protocol (Efficiency and Compliance). Culture clashes between Operations and Distribution can easily take the form of the old *M*A*S*H* scenario, where ops feels unappreciated for the hard work and long hours they put in. Distribution only makes it worse when they use sarcastic humor in an attempt to lighten the situation.

When the friction points are added in, the diagram looks like this:



In one firm, we witnessed a PM advocating vehemently that, "Performance is the only thing that matters. Everything else is crap!" This impassioned speech was aimed at the Distribution professionals who were sitting in the same room! The PM was stating his opinion as if it were fact. Examples like this abound in the investment world. During the Global Financial Crisis, relations between Investment and Distribution broke down in many firms, with the resultant finger pointing: It's the other parties fault; they aren't doing their jobs!

Armed with their conviction, Investment professionals can appear domineering in their views. The data reveal that both Operations and Distribution professionals would benefit from more respect, appreciation and empowerment coming from the Investment side. In fact, Focus 6 firms maintained much higher levels of respect and appreciation during the crisis. Instead of pulling apart, the teams pulled together and the results benefited the firm, the clients and the tribes.

THE SOLUTION: REDUCE FRICTION = REDUCE SLUDGE = BETTER DECISION-MAKING

Always doing right requires a certain frame of mind — the other person's. The most important message we have received in our tribes research is that in order to be effective leaders and professionals in investment, organizations need to pay attention. This includes the leaders and professionals in each of the tribes as well. A heightened level of self-awareness gives us a greater understanding about the reactions others will have to our values and behaviors. For a firm to really deliver value to clients, each of the tribes must work in concert. For each tribe to deliver maximum effectiveness, leaders and professionals must engage their counterparts from that person's point of view.

The result: less friction and a better client experience because the firm is leveraging the Distribution team competing and winning.

For example, we worked with a very successful investment manager who had let their Distribution team languish. When the markets became difficult they turned to them for help; however, the team had been left unattended and key decision rights were unclear. When the stakes were high and decision rights were muddy, significant friction occurred. This had a direct impact on client retention. Our advice was to clarify the decision rights between the executive committee and the Distribution team and to push more decision-making closer to the point of client contact. In other words, be clear about the decisions that Distribution makes and get as many of those as possible to the client interface. The result: less friction and a better client experience because the firm is leveraging the value the Distribution team has for competing and winning.

We have worked with several clients whose Operations team has a desire to "have a seat at the table." In particular this emphasizes the Operations aspirational value of empowerment. Seeing this from the eyes of the Operations professional is critical to reducing friction and increasing firm productivity, creativity and innovation (values of Investment professionals). Having decisions pushed "down" to Operations creates significant friction, especially from their point of view. Therefore, we advise having the Operations team become part of the solution by asking clarifying questions. The caution we give to our Operations clients relates to our teachings about accountability. If they want a seat at the table, Operations needs to be prepared to take accountability for delivering solutions, not roadblocks to creative investing.

Finally, all of us have a deep need to be appreciated. Appreciation in its most basic form means being seen, heard and valued. Tribe behavior fosters an environment where appreciation dies because those in the tribe only see things from their point of view and dismiss the other tribes. "Doing right" means appreciating others by noticing them, listening to them and validating them. It's the reason we were created with two ears and one mouth: Listen more, speak less, pay attention, and acknowledge. You will be amazed at the end result.

"Always do right. This will gratify some people and astonish others."
(...not to mention unify your culture and teams.) — Mark Twain

OUR MISSION

To help investment leaders leverage their talent worldwide.

OUR APPROACH

Jim Ware discusses the engagement with your firm's leadership, designs a custom approach, and brings in content experts when appropriate. Examples of such collaboration includes work with:

- Adam Barnett, McLagan
- Dave Bauer, Casey Quirk
- Jim Dethmer, Jim Dethmer Consulting
- Jeff Diermeier, CFA Institute
- Ron Gold, Gold Consulting
- Jane Marcus, Korn/Ferry International
- Michael Mauboussin, Legg Mason
- Brian Singer, Singer Partners

SERVICES & METRICS OFFERED

Organizational

- Foundational offsites (vision, values, strategy)
- Succession planning
- Compensation & incentive structures
- Firm integration: eliminating silos

Culture

- Analysis & management
- M&A analysis, integration implementation

Investment Philosophy & Process

- Assessment
- Applied behavioral finance
- Effective post-mortems

Leadership

- Assessments (360, psychometrics)
- Development & coaching
- Onboarding new leaders
- Personality typing & application

Team

- Enhanced decision making
- Assessments & dynamics
- Conflict resolution
- Personality typing & application

Distribution

- Marketing/Sales strategy
- Branding
- Client service

Serving more than 200 clients in 18 countries, guided by an advisory board of 33 CEOs from leading investment firms.

KEITH ROBINSON is a Human Resources executive and consultant with over 25 years of global and domestic business experience. With his blend of business and leadership development experience, he was recently selected to develop a cutting-edge leadership development program for Northern Illinois University's Masters in Accounting Science degree program. Keith is an expert in the investment industry; specifically working in asset management, hedge funds, alternative investments and risk management. His specialties include: Management and Leadership Development, Education and Training, Organizational Design and Performance, and Business Strategy. Throughout his career he has helped clients generate revenue, restructure organizations, deliver effective change, increase team performance and effectively manage human capital.

JIM WARE is founder of Focus Consulting Group, a firm that helps financial leaders understand and leverage their firm's human capital for competitive advantage. Author of three books on leadership and culture in the investment industry, his most recent is titled, **High Performing Investment Teams.** Mr. Ware is a Chartered Financial Analyst with 20 years experience as a research analyst, portfolio manager, and director of buy-side investment operations. He has taught investments at the Kellogg Graduate School of Management and written articles for various trade publications including the Financial Analysts Journal. He is on the advisory staff for **Institutional Investor** magazine and the CFA Board of Regents. His books have been reviewed in **The Wall Street Journal,** and he has presented at over 100 CFA events in 18 countries. His background includes a Masters in Business from University of Chicago.