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Navigating the life stages of an investment firm

Striking the balance between entrepreneurial creativity and professional structure

by **Jim Ware CFA**, Founder of Focus Consulting Group

and **Jane Marcus,** Partner, Global Asset Management practice, Heidrick & Struggles

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Introduction

As investment firms grow, we are often asked by their leaders: "How do we manage this growth?" and the deeper question: "How do we manage the chaos that accompanies this growth?" This paper uses "growth in staff" – not Assets Under Management (AUM), profit, revenues, or other such metrics – as a measure of a firm's size. In our experience, the addition of people is what mostly influences the level of complexity in managing a firm. As a firm grows from an entrepreneurial shop to a more structured organization, there are predictable changes that occur in these areas:

- Vision and strategy
- Culture
- Decision rights
- Human capital
- Compensation and ownership
- Succession
- Balance: creativity and structure

Key growth measure: number of employees

Each of these key areas will be discussed in what we call the journey from "small to big." Based on our work with hundreds of investment firms globally, this journey can be broken into roughly four phases. Each phase has different characteristics and dynamics. And each has a different "feel." (The experience of visiting a firm with 15 employees is very different from that of a firm with 80 employees, which is different still from visiting a larger firm with 1,000 employees.)

1 – 20 people

Entrepreneurial creativity: small, exciting, hectic, entrepreneurial shop with a handful of people.

21 – 50 people

Creativity meets structure: the small, growing shop becomes successful enough to recruit new talent, and introduce structure into the firm.

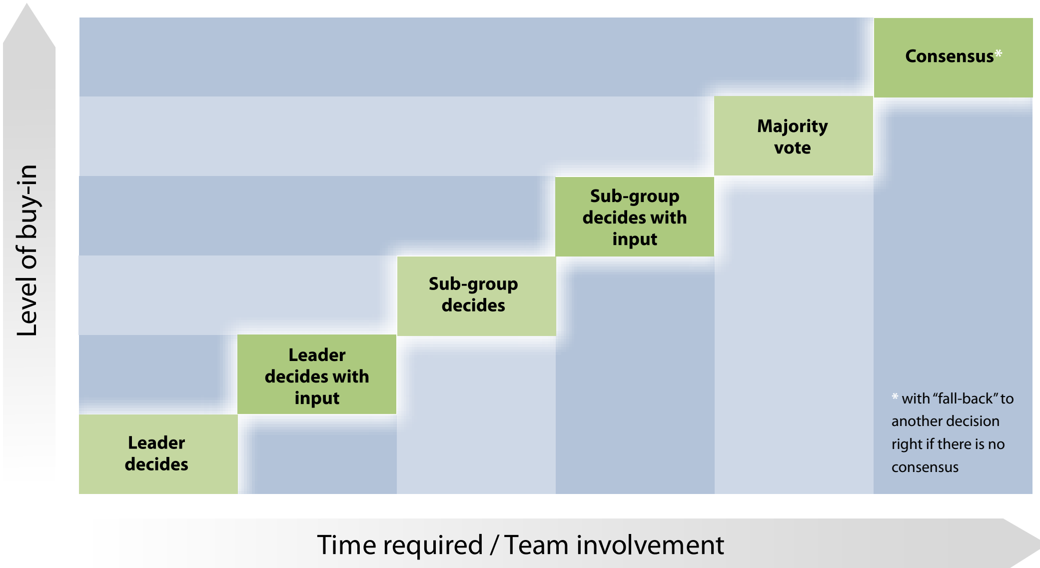
51 – 100 people

Harmony of creativity and structure: the larger firm has successfully integrated entrepreneurial creativity with professional structure so that a healthy dynamic tension exists in the firm.

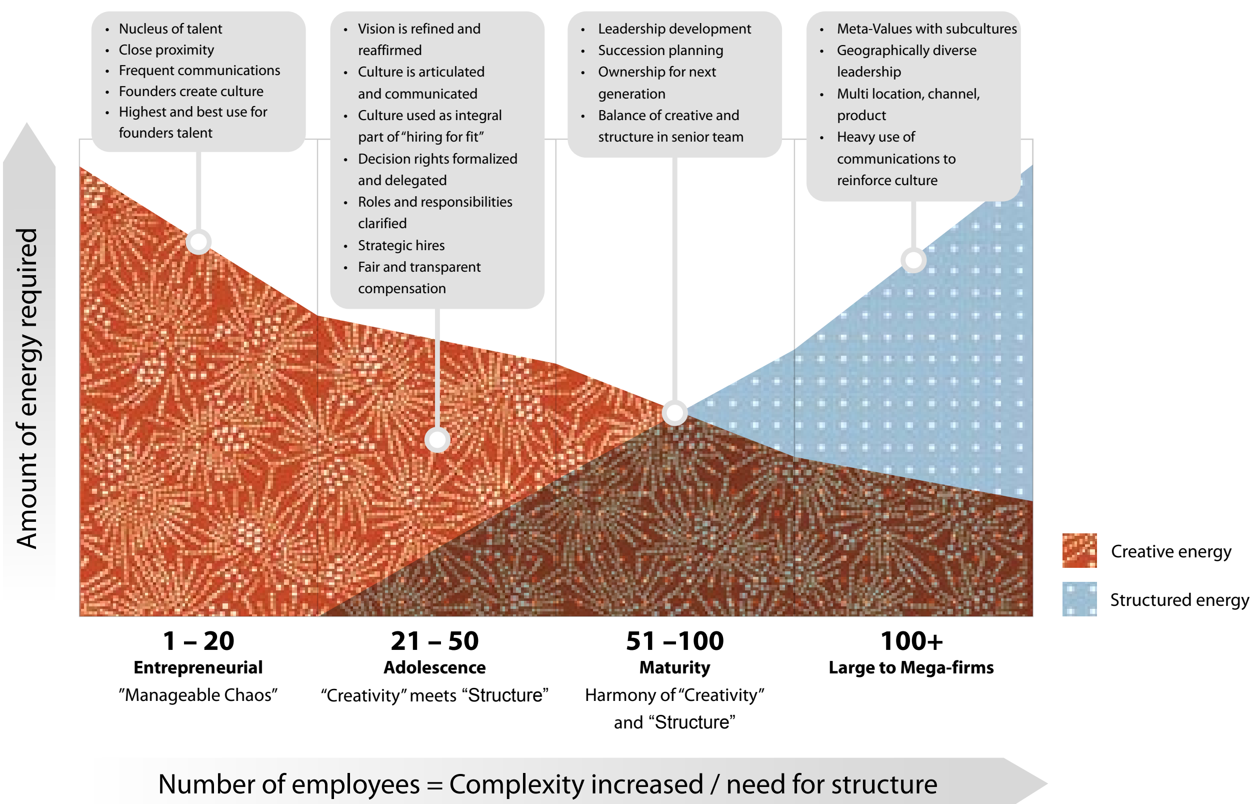
100+ people

These firms range from large to mega-firms, with geographically diverse leadership (multi-locations, products and channels). These firms have "meta" cultures which pervade the whole organization and also have smaller, distinct cultures based on location and function.

Decision rights



Life stages map



"Investment firms start with a nucleus of talent, which John Casey appropriately described as 'three smart people in a room.'"

Growth and resistance to change

A context for this discussion is the idea that any major change requires disruption or "chaos." Imagine cleaning out a closet; it looks much worse before it looks better. If you cannot tolerate the "messy" part of cleaning the closet, then the job will never get done. (We've seen many a firm avoid "taking it to the next level" because they did not have the appetite for the messiness – and risk – involved. Firms with, say, US$1 billion AUM remain that size for years, despite their statements that "we want to grow." Our explanation for their inability to grow is that, in truth, they have a larger commitment to "status quo" than they do to change, and the messiness that accompanies it.

Adding new people, products, and the like at a firm will necessarily create some degree of chaos. Knowing this in advance and setting appropriate expectations can make the journey much smoother. It's also helpful to know in advance what some of the key decisions are and how to prepare for them. Armed with the general advice that change will bring some chaos and the specific advice of "what the chaos will look like" investment leaders are more likely to successfully navigate the journey from small to big.

Predictable changes as growth occurs

Vision and strategy

Investment firms start with a nucleus of talent, which John Casey appropriately described as "three smart people in a room." Often the people involved have left a large investment organization in search of professional freedom and fulfillment. Many times these people have made enough money to be financially independent. They are usually friends who respect and trust each other. They are excited about their upcoming adventure and their vision tends to be an investment philosophy that will produce alpha and therefore attract clients. (Or, in the case of Jack Bogle, it could be the anti-alpha strategy: offering low cost passive solutions). More than one successful investment founder has told us, "Our goal was to stay in business long enough for our strategy to pay off!"

In the 7th floor lobby of their headquarters in San Diego, Brandes Investment Partners has on display a letter from Ben Graham congratulating Charles Brandes for starting up his firm in 1974. Charles Brandes' vision was to consistently apply the principles of Graham and Dodd investing through good cycles and bad, with a 100-year time frame in mind. Charles is an even-tempered, patient man who watched the company grow from virtually nothing to over US$100 billion in assets over the following three decades. One of the reasons for the firm's success is the clear vision of Charles and the other leaders at Brandes. As a privately held firm, they can state with confidence that they have a 100-year vision of success and will stick by it.

As investment firms grow, they often need to more carefully articulate their definition of success. Specifically, founders should be able to articulate the "why" and the "what" behind their motivation. Why do they want to build a world class asset management firm? What is it that really matters deeply to them about this firm and its mission? As Jim Collins and Jerry Porras show in *Built to Last: Successful Habits of Visionary Companies* (HarperBusiness,1994), most of the truly great companies were driven by a motive greater than just profit. We find the same is true of investment success. Truly great investment firms are founded and run by people who want to create a legacy of excellence. They are competitive and motivated by winning in the marketplace. Most investment professionals admire the track records of Warren Buffett, Peter Lynch, Bill Gross, and others. They would love to have that proof of excellence for themselves.

A good vision of success includes a clear picture of the future in three-five years. What specific metrics will the firm have achieved? It's useful to think of the major buckets in an investment firm: performance, AUM, employees, reputation, investment process, etc. Name one or two clear measurements that would allow you to identify and claim success. All employees should be able to state the vision and values of the firm. And they should have a clear understanding of what they mean. We call this the 30-second elevator speech: if someone said to you in the elevator: "Tell me about your firm," you could respond without hesitation. And your answer would nearly match everyone else in your firm.

For example, at Focus Consulting Group, our elevator speech is:

We are trusted advisors to investment leaders on Human Capital. Our mission is to promote conscious leadership. We do this through speaking, writing, consulting, and coaching. We work with all types of investment firms, all around the world. We value self awareness and conscious behaviors like curiosity, candor, accountability, and appreciation.

This short statement sums up who we are, what we stand for, where we are going, what we do (and what we don't do: such as manage assets), and with whom. As investment firms grow from entrepreneurial/creative to professional/structured, they should develop a statement like this and teach it to everyone in the firm. Gary Brinson understood this and made sure that everyone on the team could clearly state the mission and principles. (Ex-Brinson employees often remember – or even carry – the statement of Guiding Principles that were developed at Brinson Partners years after their employment.)

As firms grow and succeed the vision may change. At Brookfield Redding, a Chicago based REIT, the firm grew from a start-up to over US$5 billion in AUM in the early 2000s. Kim Redding, the founder and CEO, saw an opportunity to move from a domestic focus to a global enterprise. For Brookfield Redding to become truly global, Kim had to travel more and spend less time with his CIO, Jason Baine. The shift in priorities required candid discussions and resetting

"As David Fisher, Chairman of Capital Group, says, 'Culture is our only competitive advantage.'"

of expectations, as Jason had enjoyed the close working relationship in which the two of them worked side by side, strategizing about real estate trends and market opportunities.

We recommend that investment firms reexamine their vision and mission statements yearly to make sure they continue to accurately describe the purpose and passion of the leadership group.

Culture

Culture is described as the "values, beliefs, and behaviors that would differentiate one firm from another." Increasingly it is recognized as a competitive advantage in the investment business. As David Fisher, Chairman of Capital Group, says, "Culture is our only competitive advantage."

In the early days of an investment firm, the mood in the office is upbeat and exciting. Glenn Carlson, CEO at Brandes, remembers it this way, "We were so enthusiastic. We had total conviction about our process." Often the founders wear a number of different hats: researcher, portfolio manager, marketer, coffee maker. As Bill Wheatley, general counsel for Greystone Managed Assets in Regina, Saskatchewan, told us, "It was a ball at the beginning. I had to rent furniture and find office space for us!" (Greystone has grown from US$3 billion of AUM, with 20 clients in 1988, to over US$30 billion in assets, with over 100 clients.) The hours are long, but people seem to enjoy the frantic pace and general creativity. The creativity is energizing.

The basic goal at this stage is to survive *(to survive while building a better mousetrap!)* Often the firm is operating in the red, living off savings, waiting for the revenue and expense lines to cross and birth a tiny profit. All depends on performance – can the track record be established? – and the ability to woo a few trusting clients.

The founders are happy because they get to spend a lot of time in their area of genius: their highest and best use. There is no bureaucracy – yet – and each founder is busily plying his or her trade, trying to find alpha.

Physical proximity is important in this early stage. The small team works together closely and culture is built from that interaction. The founding partners define culture by the way they treat each other. (Often they define culture by the way they don't want to act, i.e. they don't want to be like the big firm they left). Newcomers to the firm witness the interactions and learn what beliefs, values, and behaviors are part of the way that business is done. For example, if the founders challenge each other's ideas in a respectful way, then newcomers learn that it is okay to challenge one another. If the founders are passive and conflict avoidant, then the staff learns to do the same.

This learning occurs at an unconscious level. And it is hard to un-do. A CEO was promoting candor in his organization and got the following pushback from his CIO: "people who speak candidly around here get punished." The CEO responded, "Give me an example." To which the CIO said, "Three years ago when I argued with Joe Smith, he turned all his staff against our department." The CEO looked dumbfounded and after a pause said, "That person is no longer even alive; what are you afraid of, his ghost is going to come back!" The point is an important one: people make up stories based on single events and then hold on to them as if they are divine truth. It is often the case that employees tell us privately, "you can't be honest around here, or it will come back to bite you." Then when we follow up with requests for examples, the ones given are from years ago. The message: leaders must be careful in their behaviors because employees watch them closely and create cultural belief maps in their minds, with statements like, "Candor is not welcome around here!"

Successful firms emerge because their leaders naturally practice a set of constructive behaviors, supported by useful beliefs and values.
(For example, Gary Brinson's belief in taking the long term view resulted in the practice of **not** placing TVs in the trading and research areas; he didn't want investment professionals to get caught up in daily market drama.)

As firms grow, they need to become more conscious about the culture that feeds their success. In the case of Brandes, they have moved from a small office in which all the employees could see one another to six floors of a building in Del Mar. Brandes has taken steps to articulate and preserve the culture by creating a detailed description of the values and behaviors they practice. In a 58-page document, called *The Brandes Culture Project*, the firm has carefully written about the culture that grew out of Charles Brandes' style and his devotion to value investing. Despite growth in employees from a handful to over 500 today, the key values espoused by Charles remain intact. They are as follows:

- belief in value principles (Graham and Dodd)
- ethics and integrity
- focus on the long term
- put client interests first
- respect
- teamwork and humility
- work hard, appreciate accomplishments, enjoy life and each other
- building a legacy

"Successful firms emerge because their leaders naturally practice a set of constructive behaviors, supported by useful beliefs and values."

The authors of *The Brandes Culture Project* describe the purpose of this document as follows:

"Culture is loosely defined as the qualities of a group that are passed from one generation to the next. These qualities manifest both deeply and broadly. The depth of culture includes visible manifestations such as the office layout itself, the artwork adorning the walls, and even the display of Benjamin Graham's 1st edition of Security Analysis *in the main lobby. Below the surface, culture manifests through our norms and values, as they are stated and practiced. At the deepest levels, our culture manifests subconsciously in the way we behave. At that level of depth, we may not be able to describe our culture in words. Yet, we do know when we see a behavior that does not fit our culture – at which point we might say, 'That's not Brandes-like.'"*

Herein lies an important lesson about culture in a growing firm: strong culture requires conscious attention. As the firm grows, it needs more space for the additional staff. It may move to two floors of the same building. However, physical separation represents cultural challenges, whether it involves moving a small but growing team to multiple floors, or moving entire departments to different buildings. Consider the following experience of one well-known Chicago firm in the early 1990s. To house its growing operations and technology department, this firm opened a state-of-the-art facility on Canal Street, a shuttle-bus ride away from the headquarters building. But instead of being praised for its many amenities (in-house health club, child care center, indoor parking), the new facility became known darkly by the transplanted team members as "Canal-Catraz" because of its isolation from the rest of the firm.

"It is critical to handle the first separation skillfully and attentively.

It is critical to handle the first separation skillfully and attentively. Previously, when all employees were together with the founders, they could learn the culture by osmosis. However, once there is a satellite group that no longer interfaces daily with the founders, the founders need to formalize their culture. They need to articulate the rules of engagement. What are the values and behaviors that everyone will honor and will support the success of the company? Are they clearly defined so that they can be operationalized? What does "integrity" mean? How would I know if a colleague practices "teamwork" or is "accountable?" These values – integrity, teamwork, accountability – are the three most common ones chosen by investment firms when they go through the practice of identifying their culture.

We suggest that firms behavioralize their values by agreeing on three or four concrete behaviors that would define the value. For example, if you have chosen "integrity" (and we hope you have!), then a concrete behavior for this value is "I make and keep clear agreements." It would be hard to imagine someone having integrity if they were sloppy around agreements, say, overpromising and underdelivering.

If firms don't formalize their culture as they enter this growth phase, the danger is that the culture will weaken. And importantly there won't be a conscious process for "hiring for fit." People will interview using the "seat of the pants" approach, rather than a carefully designed process that emphasizes two factors: cultural fit and competency fit. Statistics show that the seat of the pants (informal) process succeeds only about 20% of the time (meaning people who are hired are in their jobs three years later) vs. a success ratio of 80% for the formal approach, with written questions about both culture and skills.

Decision rights

Another important dynamic that changes in the life cycle of a firm is the concept of decision rights. Initially, the founder may make all the key decisions. Or the three founding partners may decide in concert, a consensus style. As the firm grows, however, they are forced to delegate decisions and to become more conscious about how decisions are made. Our model is given on page three.

Often, growing firms are unclear about who has decision rights for given responsibilities. Therefore, we recommend a session in which decision rights are clarified. The founders list all the major areas of responsibility and the decisions associated with them and carefully decide who has the "right" to choose how decisions will be made. The chart on page three gives the options. A clear understanding of this process will eliminate much of the drama that goes on in most organizations. And it will increase efficiency in meetings. Attendees should learn to ask: are we going to make any decisions in this meeting? If so, who has decision rights? And for the decisions we will make, what is the method we'll use for each one (such as "leader decides," or "vote," or "consensus?")

A rapidly growing firm in Toronto experienced an unexpected bump in the road during an offsite when we asked, "Who has decision rights on this leadership team?" The CEO responded matter-of-factly, "I do." The COO, surprised and visibly upset, replied, "No, you don't." What followed was an interesting discussion about the history of decision making by the five long-time associates on the senior team. The COO's surprise was explained by the team's consistent use of collaboration and consensus in making decisions. In his mind, decision rights were mutually owned by all members of the senior team. The CEO viewed it differently: yes, most decisions were made by the team, **but** the CEO was the largest shareholder and technically had final say in decisions. Again, the point here is that decision rights can become muddy as a firm grows. We recommend that a thorough review of decision rights occur at least once a year.

The decision rights discussion may be combined with its logical "cousin": roles and responsibilities. Along with clear decision rights, founders should discuss and agree on clear roles and responsibilities. A useful exercise for the growing firm is to put all the tasks that need to be performed on stickies and then place them on a conference room wall. On a separate wall list the names of all relevant employees across the top. Then have employees move the stickies under their names, using two criteria:

"I have passion for this activity"

"I have skill at this activity"

When teams do this exercise, typically more than 80% of the stickies find a home. Sometimes one activity finds several homes, like "research stock ideas" could end up under the names of all analysts. Org charts and clear job descriptions are the outcomes from this process. The goal is to place people in their "highest and best" use and reduce redundancies.

Human capital

At the heart of the investment engine is human talent: smart, talented people make it run. As firms grow, they need to add people who will both contribute and blend with the chemistry of the existing firm. (When Britt Harris left Verizon Pension to join Bridgewater as the president, he told us that the Bridgewater culture, crafted by Ray Dalio, was the best he had seen. "You'll want to write another book about this one!" he said. In fact, a few months later Britt left, acknowledging that he and Bridgewater were not a good culture fit. *Note: Bridgewater continues to succeed, as does Britt Harris, now CIO at Texas Teachers (voted "Public fund of the year in 2007"). The point is simply that Bridgewater and Britt were not a good fit.*

The way in which firms think about talent is changing. Executive searches used to be all about putting a body in a box. Now the discussions start earlier and are focused on questions like:

- What are the strategic needs of the firm?
- What are the competitive forces in the market?
- What additional capabilities and competencies do we need to be successful?

To use a health analogy, the old paradigm involved taking your sore back to a medical doctor who would then diagnose and prescribe treatment. The new paradigm involves a holistic approach which could view the whole system, through a variety of lenses (physical therapy, acupuncture, alternative medicines, chiropractors, etc.) The movement is away from a simple linear view: "We need a chief marketing officer," to an integrated view of the entire firm's needs.

The exercise with "stickies" above may reveal a need for more people at the firm. If no one takes the "marketing" stickies, then the remaining stickies suggest a job description for a new hire. The founding team should use the stickies, in conjunction with a broader discussion of the firm's need and objectives, to craft a job description for a new hire.

Other positions will also need to be filled after the initial phase of growth (i.e. "three smart people in a room"). Using our distinction between the old and new paradigm for executive search, these are the typical the next hires:

old paradigm bodies in boxes	**new paradigm** strategic hires
Chief Financial Officer	**what are the financial needs of the firm?**
Chief Operations Officer	**what are the operational needs of the firm?**
Chief Compliance Officer	**what are the compliance needs of the firm?**
Chief Talent Officer	**what are the human capital needs of the firm?**

Returning to the Brandes example, CEO Glenn Carlson believes that one of the most significant decisions in the history of the organization was his decision to bring Brent Woods in to formalize the investment process. In fact, Brent has been such a powerful force in driving and shaping the Brandes success story that when we asked Glenn, "How does Brent support you in your role as CEO?" Glenn's immediate response was, "I support him." Brent has proven to be a dynamic champion of the value investing style and now leads a group of nearly forty analysts on the research team.

Often as a firm grows, it seeks a balance between the initial talent and entrepreneurial spirit of the founders (the ones who had a vision for creating alpha), and someone who can run all the non-investment aspects of the firm. A danger for rapidly growing firms is when their talented investment professionals spend less and less time using their natural talents for investing and more of it on running the firm. Top firms aim to keep their investment pros aligned with their passion and talent for investing. The 80/20 rule is helpful here: 80% of their time should be spent on investing. We watched one CIO turn his career around – from burned out and demotivated to re-energized – simply by hiring a COO who took nearly all the non-investment tasks off of his plate. Similarly, a key hire for Brandes was Jeff Busby who organized and ran the back office. During the period 1990 to 1995, Brandes went from a handful of employees to 250! Glenn Carlson jokes, "We had no clue how to manage people!" A hire like Busby was critical to success.

A major challenge in hiring a new COO is the founder's willingness to relinquish power. One well-known firm has had a revolving door of COOs because the founder is unwilling to let go of the non-investment duties. A successful example of the "COO concept" is seen at Ariel Investments in Chicago, where John Rogers, the founder, hired Mellody Hobson as president to run the day-to-day operations at the firm. Together they create a dynamic team, and John is free to put his investment talent to work.

"Formalizing compensation is natural as a firm grows."

Compensation and ownership

In the early days of an investment firm, compensation is usually a "seat of the pants" exercise. Or as Kim Redding told us, "We got around any comp problems by overpaying everyone!" Often at the outset, the excitement of building a firm outweighs concerns about "am I being paid fairly?" We've listened to countless people tell us that they took pay cuts to join small, promising upstarts. Additionally, base salaries are seen as less meaningful when bonuses can double or triple the salary.

Formalizing compensation is natural as a firm grows. For example, Diamond Hill Investments in Columbus, Ohio has grown from US$25 million AUM in 2000 to over US$4 billion currently. The "three smart people in a room" have grown to over 40. Ric Dillon, CEO and CIO, recognizes that they are in a talent business and believes that they have been able to attract and retain talent for these reasons:

1 Investment-centric culture
2 Ownership of the business
3 Central Ohio location
4 Competitive compensation on a national basis

As Diamond Hill has grown, they have used industry norms to help benchmark salaries. Bonuses in the early days were entirely subjective, with Dillon as the primary decision maker. As the firm moved to a more objective formula and process for determining bonuses, one of the biggest staff concerns was, "Don't break what ain't broken." The staff has a high level of trust and respect for Dillon and the bonus process – though completely subjective – worked well for them. In formalizing their process, Diamond Hill determined that the bonuses should reflect behaviors and results in these three areas:

1. Investment performance (portfolio manager and analysts contribution to alpha)
2. Team work: Does the individual contribute to the development of the team through knowledge transfer, sharing experiences, providing good feedback?
3. Building the business: Does the individual contribute to the revenue base? Does the individual contribute to client service? Does the individual contribute to growing new products? Does the individual contribute to brand building and public relations?

The discussion that led to these factors included all the investment professionals, so there was significant buy-in. Compensation discussion and decisions will always be highly subjective, so this final sense of buy-in, based on perceived fairness and transparency, is necessary for a successful outcome. The Diamond Hill process involved pre-interviews with all the investment staff, and a half day facilitated session to arrive at an agreeable solution.

Another successful element of attracting and retaining top talent is ownership. We've seen a number of promising firms fall apart because they could not get this part of the equation right. Nate Dalton, COO at AMG, describes their approach to properly incenting investment professionals:

1. Salary and bonus (as discussed above)
2. Management influence (i.e. a "say" in the business decisions)
3. Ownership in the business

AMG's success as a holding company for investment boutiques is in large part due to their understanding of this incentive structure and creating a model to help firms create the right structures, once

"Another successful element of attracting and retaining top talent is ownership. We've seen a number of promising firms fall apart because they could not get this part of the equation right."

they've become large enough. Dalton says, "Getting ownership alignment right is not an event, it's a process. And further, ownership is necessary but not sufficient."

As firms transition from "entrepreneurial creativity (1–20 employees)" to more mature and stable entities, they invariably face challenges around the three factors that Dalton has described above. The guiding principle is clear in each case: key staff must feel that they are fairly sharing in the profit and ownership of the company. The only way to achieve this sense of fairness is to consciously address and agree on these issues. Founding teams which are unwilling to have these discussions tend to lose their key talent.

Research continues to show that compensation is not the driving force around a person's decision to join or to leave a firm; however ownership **is** a driving force behind retention and recruitment. (We love this quote from Noam Gottesman, Chairman and Co-Chief Executive, GLG Partners PL: "I would never have imagined a few hundred million dollars was an insufficient amount to retain somebody.")

Succession

Finally, there is the issue of succession. Obviously, at the outset, during entrepreneurial creativity, succession is the last thing on the founder's mind. After all, they just started the enterprise, why would they think about the next generation of leaders? The problem arises as the firm grows and reaches critical mass. Clients and consultants ask the inevitable questions around succession. Most investment leaders tend to resist these questions because they assume that they will live forever. As Freud explained, we can't really grasp the notion of our own demise (actually, as in death; or figuratively, as in retirement). So we deny it, don't think about it. But last time we checked, the mortality rates for CIOs is still 100%! (One CIO we know quipped, "I'm going to live forever or die trying!" Best of luck.)

Smart firms get way out ahead of the succession issue. They have processes for addressing succession in all the key positions of the firm. At AMG, the model includes these five phases:

1. Assessment of key positions
2. Identification of key talent
3. Assessment of key talent
4. Generation of development plans (to train and develop targeted people)
5. Development monitoring and review

Some of the key practices in successful succession planning include the following:

- Determine who owns and leads the talent development process and is accountable for its results. This needs to be championed at the highest level.
- Make succession planning a proactive and repeatable process.
- Create a multi-level succession plan: include senior management, portfolio managers and client service professionals.
- Ensure data is gathered on a continuous basis to evaluate individuals fairly.
- Involve and inform high potential talent on a periodic basis to maximize engagement and retention.

The outcome of the process is an assessment of each position and the individuals who are slotted to move

"Often the move from small to big is made in discreet or "quantum" segments. The change between each segment may appear chaotic, and that may trigger an unconscious reaction of danger!"

into those positions, with these three qualifiers for each person:

1 Person is not ready, development plan is required.

2 Person has development plan and is moving towards "ready" status.

3 Person is ready now.

Victory Capital is an example of a firm that has taken the long view for succession planning, particularly as it relates to key investment roles in the firm. It has completed one succession plan for a team in which the lead portfolio manager indicated his intention to retire upon reaching the age of 65 (five years in advance). The plan has been in place for 18 months and has action items and milestones regarding team member growth, investment decision process and client responsibilities.

Victory has embarked on a second exercise for a team in which the lead portfolio manager intends the opposite: to work as long as possible – but where both the business leadership and the investment professionals agree that in such a case a clear and thoughtful transition plan must be in place well in advance of any transition. While the succession plan is not driven by any specific timing issue, it is clear that when the time comes to enact it, the portfolio leadership transition must be credible and fully functional.

The lead portfolio manager is well-liked and respected by his team. The firm has been involved in a rigorous process to assess their current talent and work towards careful transition to a new portfolio leadership down the road. In this way, Victory Capital will achieve the goal of all great teams: no surprises.

The succession decisions will be well thought out and will not be jarring to employees, stakeholders, clients or consultants.

Balance: creativity and structure

A final thought on the journey from entrepreneurial creativity (1–20 employees) to dynamic tension (over 20 and then again over 50 employees) involves the personalities and skills of the leadership team. If a firm has handled the issues discussed above skillfully, it can emerge as a larger, mature firm that has both the entrepreneurial excitement of a small firm and the necessary order and structure of a larger, professional firm. The goal is to find the balance between the two, to accept the dynamic tension that comes from welcoming a certain amount of chaos and creativity bounded by the appropriate structure. Growth in consciousness usually is part of this process because it requires embracing two very different personality structures:

1 Creative, flexible, go-with-the-flow, mad scientist.

2 Practical, planful, structured Mr Spock.

Some of the best investment firms have a senior combination of these two types, and as a result they are well positioned to be both creative and structured. Examples are shown in the table below.

Importantly, as firms mature, the balance between creativity and structure must be managed as a healthy tension. If one side or the other becomes self-righteous ("We're more important.") in this balancing act, then there is a danger of collapse. Firms need both forces to be successful. When we see leadership teams in which these two opposing forces are embodied and respected, the prognosis is good.

A final benefit of having senior officers in the firm who represent the "creative, flexible" side of the balance is that they typically have more tolerance for the discomfort that accompanies change. Often the move from small to big is made in discreet

firm name	**creative, flexible** influence	**planful, structured** influence
Brookfield Redding	Kim Redding, CEO/CIO	Nick Tannura, President
Research Affiliates	Rob Arnott, Chairman	Katy Sherrerd, Managing Director
Ariel Investments	John Rogers, CEO/CIO	Mellody Hobson, President
Brandes Investment	Glenn Carlson, CEO	Jeff Busby, Managing Director
Sionna Investments	Kim Shannon, President	Brian Deegan, COO
MKP Capital	Chip Perkins, Principal	Pat McMahon, Principal
Turner Investments	Bob Turner, CEO	Tom Trala, COO/CFO

or "quantum" segments. The change between each segment may appear chaotic, and that may trigger an unconscious reaction of *danger!* People who are wired to like and appreciate structure may therefore resist the change. (They may resist it at an unconscious level, all the while saying, "I support change!") Their resistance creates more discomfort, which in turn creates more resistance. An important piece of self awareness in the growth process is simply to recognize that there will be periods of discomfort along the way. The more you accept them, the less discomfort you will experience. (FDR uttered a useful insight when he said, "We have nothing to fear but fear itself.") Many firms have stalled out in their attempts to reach the next level of growth because they did not know how to manage through the predictable discomfort of change.

Summary: the journey from small to big

As with any trip, it's good to have a map. This article has attempted to share key milestones on the journey from small, entrepreneurial boutique to mid-sized, professional firm. In the beginning, most successful founders are focused on the day-to-day operations. They are like the martial arts master who is watching the opponent's every move and countering each action skillfully. Punching, blocking, and counter-punching. Much of the fun is this intense preoccupation with the present moment. (Spiritual teachers tell us that the most joyful place to be is "here and now.") Being fully engaged in an endeavor that they love brings great happiness. Many founders have described their experiences as being similar to Maslow's "peak experiences."

As the firm succeeds and grows, the founders must periodically step back from the business and reflect on where they have been and where they are going. They lose some of the spontaneity and engagement that they experienced in the early days. The new puzzle that presents itself is finding the balance between creativity and structure. Another way to describe this evolution is that the founders must move from unconscious leadership (i.e. simply diving into their business, being *reactive*) to conscious leadership (i.e. thoughtful planning, being *proactive*). The areas highlighted in this paper – Vision and Strategy, Culture, Decision Rights, Human Capital, Compensation and Ownership, Succession – are some of the most important and most predictable areas where forethought and planning can reap the greatest rewards.

"As the firm succeeds and grows, the founders must periodically step back from the business and reflect on where they have been and where they are going."

“Another successful element of attracting and retaining top talent is ownership. We’ve seen a number of promising firms fall apart because they could not get this part of the equation right.”

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