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Lessons on Leadership (LOL): Commercial Success and Culture: independent in the short term

Success is not a barometer for culture. Some investment leaders have dismissed culture assessments as pointless because they simply measure commercial success. They reason, “Successful firms exhibit strong culture; winning makes everyone happy. Losing lowers morale.”

But culture is different from morale. Thus, this rather cynical comment from a CEO, “What’s the point of a culture survey? When we’re winning culture is good, when we’re losing it’s bad.” The underlying assumption is that performance drives culture. In this view, culture is equated with morale.

While it’s true that good culture often creates high morale, it’s not true that commercial success creates strong culture. A firm with poor culture and low morale can win over the short term.¹ Conversely, a firm with a strong culture and high morale can hit a rough patch and suffer setbacks.

Let’s explore the relationship between commercial success and culture. Consider two firms we’ll call “Slick” and “Sludge.” Slick has exceptionally strong culture but poor results, Sludge has just the reverse. Slick and Sludge are both mid-size active equity managers. Slick has been a 20-year success story, with good performance and good asset growth. But after 20 years Slick’s investment strategy fell out of favor and, over a three-year period, they lost half of their assets. As expected, no one at Slick is happy about their downturn. Morale is challenged. But a culture survey taken during this difficult period revealed a resilient culture with a staff that is aligned and motivated.

Sludge shows the opposite story. They had a very strong track record in their flagship fund and assets were growing when they took the culture survey. Their results, despite commercial success, revealed a toxic culture.

Four diagnostics from their culture surveys capture the stories of Slick and Sludge. The four are:

1. Values and behaviors that staff members regularly experience
2. Amount of toxic behavior
3. Measurement of success factors
4. Representative comments from staff members about the culture

Values and behaviors: the current culture as experienced by the staff

According to employees at Slick and Sludge, they experience² the following at work (Most experienced value at the top, then declining. Toxic behaviors shown in red):

¹ See FCG’s white paper, “[Linking Strong Culture to Success](#)” on our [website](#) for a deeper look at the connection between culture and success.

² For the sake of simplicity, assume that each firm’s surveys results are current, even though Sludge’s were recorded several years ago and should be referred to in the past tense.

Slick	Sludge
Servant Leadership	Analytic/Research Oriented
Ethical/Integrity	Results Oriented
Analytic/Research Oriented	Competitive/Win/Be the Best
Diversity	Defensive Behaviors
Purpose Driven/Make a Difference	Long Hours/Hard Work
Collaboration/Teamwork	Collaboration/Teamwork
Compassion/Caring	Community/Social Responsibility
Community/Social Responsibility	Gossip
Generosity (time, talent, resources)	Territorial and Political
Respect	Blame

First, simply eyeball each list. Which one feels like it would be a more productive work environment?

The Sludge culture has five toxic behaviors that negatively affect the working environment. They are shown in red. By contrast, Slick has no toxic behaviors. Furthermore, three of Sludge’s values suggest a “sweatshop” experience: long hours/hard work, competitive/win/be the best, results oriented. Note: these values are not colored red because they are not inherently toxic. But when all three are combined under a harsh leader, they make for a toxic work experience. Many comments in Sludge’s culture survey reflect this: “A demanding environment usually raises the quality of one’s contribution; however, when requests are not respectful their cumulative impact is demotivating and discouraging.” Plus, “We experience of fear and distrust. There is a disrespect for the people that work here and for their intellect. The idea of 'you are only as good as your last call' is prevalent.”

Conversely, Slick’s culture is compassionate, generous, and respectful. Comments from their survey: “This firm is proactive in making sure employees feel safe, secure and have whatever they need to be successful.” And: “My colleagues and team leader trust me to do my work and perform my role without micromanagement, even if it is something that is new to me or stretches my skill set. The leadership team is curious and listens and invites me into conversations where they believe I have a skill set, expertise, or a diverse point of view to share. They listen openly and challenge appropriately, respectfully. I can have and have had tough conversations, asking and receiving freedom to execute my role as I have been trusted to do with a positive response.”

Toxic Behavior

A deeper look at the total amount of toxic behavior in each firm is shown below:

Slick		Sludge	
Toxic Behavior	% of staff in agreement	Toxic Behavior	% of staff in agreement
Bureaucracy	1%	Defensive Behaviors	31%
Slow Moving/Reactive	1%	Gossip	27%
Blame	0	Territorial	25%
Defensive Behaviors	0	Blame	24%
Disrespect	0	Politics	24%
Entitlement	0	Short-Term Focus	24%
Gossip	0	Disrespect	22%
Manipulation	0	Negative	18%
Negative	0	Bureaucracy	15%
Politics	0	Entitlement	14%

Note the obvious: Slick's staff believe that toxic behavior is virtually absent from the culture. Sludge's culture is riddled with it. The primary driver of toxic behavior is fear. Indeed, the comments from staff members at Sludge indicate a very fearful environment. Despite their commercial success, the culture does not promote engagement, optimism, or confidence.

Measurement of Success Factors

Successful investment firms tend to share certain factors such as the ability to attract top talent, loyalty of the staff, good communication, effective execution of plans, and ownership mentality (i.e. staff members think and act as if they are owners of the firm). As you look below at the data for the two firms, remember that the data were collected during a successful period for Sludge and a challenging one for Slick. Looking at just the information below, you might be tempted to conclude the opposite.

Factor	Slick	Sludge
Ability to attract top talent	97%	58%
Loyalty of the staff	100%	57%
Good communication	96%	28%
Execution of plans	100%	39%
Ownership mentality	100%	12%

Comments from Staff Members

The analytics on the written comments from each firm's survey revealed the following:³

Factor	Slick	Sludge
Positive to Negative emotions	14.13	2.53
Psychological safety ratio (higher is safer)	4.44	2.22
Sense of belonging/affiliation (% of words)	7.54%	2.62%
Achievement oriented (% of words)	5.64%	3.96%
Anger (% of words)	.13%	.34%

Clearly the Slick culture is superior using Maslow's Hierarchy of Needs as a framework. The staff's needs for safety, belonging, and achievement are better met than in Sludge's culture. Overall, the Slick culture has a much higher ratio of positivity than Sludge. A sampling of representative comments below gives you a feeling for the data presented above.

Slick Comments: positive (95% of total pages)	Sludge Comments: positive (25% of total pages)
The firm has an amazing culture!	I like the analytical rigor at our company and this must be maintained.
This firm exemplifies what I would try to create if building a firm: nimbly balancing the priorities of being a high-achieving investment firm with creating a positive work environment and making an impact for humanity.	Realize that any great culture isn't always going to be fun 24-7-365....stress makes you stronger... This is an AWESOME place and I hope I die here...(Editor's note: you may.)
I believe this firm values each person and their unique contribution, and, therefore, does its utmost to safeguard the person's entire well-being.	If you take the initiative to go beyond what is expected, it is usually recognized and rewarded

³ Special thanks to Jason Voss, CFA who developed algorithms to measure these factors in the written comments.

Slick Comments: negative (5% of total pages)	Sludge Comments: negative (75% of total pages)
As we endeavor to constant improvement, I believe we need slightly more focus on business creativity and nurturing the entrepreneurial spirit to continue our growth.	There is too much micromanagement. Staff are treated like children (face time emphasis or WFH requests instead of trusting employees to be responsible). There is a clear demonstration of favorites and people are rewarded based on likeability rather than competence and/or performance. In a nutshell, its totally demoralizing and this has suffered from significant staff turnover over the last decade.
Accountability/Responsibility and Candor/Honesty/Open are things that I think our firm wants, but struggles with because we all try to be nice and sometimes being nice doesn't result in those values/behaviors.	from the top down there are individuals who are unapproachable & confrontational. instead of building up individuals and teams there seems to be a process of knocking them down
My preferred culture is based on inclusivity but with a strong customer service focus.	individuals are regularly "beaten up" and put down, many times in a public forum.
Since the beginning of 2018, we've added 9 Partners and seen 5 Partners depart. It's interesting to see how the culture is shifting with the turnover in Partners.	I think we are great at what we do investment wise but could use help in the way we treat employees. There is a level of disrespect demonstrated by senior management which is the root of employee unhappiness.
Very fast-paced which can be hard to sustain long-term.	Feeling very nervous that I may make a mistake.

Some of the most telling comments written by Sludge employees relate to the “Net Promoter Score” (would you recommend working at Sludge to a friend).

“The only reason to take a job here is because you have little or no choice in a tough job market. People are hesitant to refer new employees into the firm these days because of the general unhappiness.”

“You wouldn't tell your friend to walk into this battlefield.”

“You would discourage friends from joining the firm.”

“I wouldn't recommend any friend work here.”

Again, remember that Sludge was gaining AUM in this period and planned to double in size over the coming three years. On paper, they were a clear commercial success.

The Upshot: Slick and Sludge

At this point, we know the upshot for Sludge. The poor culture and high turnover of talent led to concerns on the part of clients and prospects. AUM growth flattened and then declined as performance worsened. As expected with weak culture, eventually the chickens come home to roost. The same leadership that created the culture described above is still in place. Sadly, the culture shows no signs of improving.

The more interesting question is whether Slick's outstanding culture will allow them to weather the storm and emerge successfully when the clouds have parted. Time will tell. At this point they are right in the thick of it. Meantime, the strong culture is giving Slick the best shot possible at resuming their long history of success. Employees are fully engaged and committed. My money is on them to win.

So, don't confuse commercial success with culture. And don't use poor performance as an excuse for weak culture: "Of course our culture is weak, our performance is down." Like the pilot who always checks his parachute before takeoff, make sure your culture is strong before you hit any turbulence. It's hard to build culture when all hell is breaking loose. Use the calm air to do it now.

Curiously,

JW