March 21, 2016

LOL Journal - Money and Motivation

OK. Having read these blogs, you must be wondering: *when do we get to the heart of the matter? When do we talk about Money, Cash, Greenbacks?* That's what it's all about right? Well, the Ego would love for you to think that. The Ego is greedy for more, always. Ego wants more for a variety of reasons. First, scarcity. There is never enough, so Ego always wants more. Fear drives the Ego to want more money, security, love, recognition, things, you name it. Second, status. The Ego likes to feel special. It wants to stand out from the crowd. Money is a way to do that: *look at me, I'm rich*. Third, the Ego loves to win, as a way to feel better than others. Money is a way to keep score. *You are a loser. I am a winner.*

Note FCG's position is NOT that money is bad. It's fine to make money and be financially responsible. And, personally, I've never wanted to live hand-to-mouth. But on the whole money issue, I think FCG has retained a level of sanity. I'm proud to say that all the partners at FCG left higher paying jobs to work here. Why? Simple. They love this work. They committed to the work, betting the money would follow. (For extremely rich readers: if you feel sorry for us, please send large checks made out to "FCG Relief Fund.") All FCG partners have kids to put through college, so we're not free of financial pressure. However, I'm happy to say that all of us woke up from the illusion that money brings happiness. It doesn't. Research on this topic is clear. Daniel Kahneman, Nobel Prize winner, has studied the money issue and concluded that the benchmark amount in the U.S. is $75,000. Above that level of income making more "won't significantly improve your day-to-day happiness."[1]

Already I can hear wailing and protests from the readers: "that's not enough for me to be happy! Are you kidding? I live in NYC. I can't even rent an apartment with that income." Ok. Right. The dollar amount for NYC is higher: $99,150. Here's the point: many of the investment professionals that FCG works with are making 10x that amount. This industry's compensation levels are ridiculously high. And yet investment professionals still lose sleep over pay. The Ego is thrilled with this state of affairs, thinking, "I've completely won this battle. I've sucked them into a dead end, where no matter what they make, they'll still be miserable. It will never be enough. Yes! (fist pump)."

So, what's going on here? How do very intelligent people get fooled by the Ego? Think of the nature of money: it is very subjective and very relative. Despite consultant's best efforts to provide fair and objective answers to the "money" questions, they can't. A case in point, FCG was involved in a comp negotiation with a PM and CEO, in which the PM thought he was grossly underpaid at "only" $5 million per year. (Poor guy, only making 50x the "happiness" benchmark for NYC. I can barely keep typing with these tears flowing all over the keyboard…) The PM and the CEO requested special data from a comp consultant to see exactly what the "fair" range should be. After each of them reviewed the same data

[1] http://www.huffingtonpost.com/2014/07/17/map-happiness-benchmark_n_5592194.html

with a magnifying glass, they were still $4 million apart. He thought $10 million was fair, the CEO said $6. Subjective, right?

And then there is the "relative" part. This PM who was "only" making 50x the benchmark for happiness argued that his track record and experience were worth $10 million elsewhere in the city. So, on a relative basis, he was being screwed. (Several times during this negotiation I thought, "We really need some perspective. Maybe a trip to Bangladesh.") The level of angst that both parties felt during this negotiation was absurdly high. There are families dealing with serious health issues who suffer less than these two.

Again, for the Ego, this is all GREAT stuff. Otherwise sane and rational people are moved to complete insanity by money. The Ego doesn't really care how it snares you, just that it does. And the investment world, with its promise of big money, is almost too easy for the Ego. Like shooting fish in a barrel. Once you jump in to that "money" barrel, it's easy hunting for the Ego. Rather than saying to themselves, "I won the career lottery by getting a job in the investment world"--a sane view--investment pros instead dive into the barrel and thrash about trying for more money. Even when the research is clear: it won't make you a lot happier. People have a set point for happiness and even winning the lottery doesn't affect the set point more than temporarily:

> *The study found that the overall happiness levels of lottery winners spiked when they won, but returned to pre-winning levels after just a few months. In terms of overall happiness, the lottery winners were not significantly happier than the non-winners. The study showed that most people have a set level of happiness and that even after life-changing events, people tend to return to that set point.*[2]

So, what's a sane approach? Dan Pink's research on knowledge workers offers some insight about motivation. And the key is: intrinsic rewards, not extrinsic rewards like money or promotions. Assuming you like the nature of investment work—and most investment people do—then the real motivators are:

1. Mastery (getting better and better at your work, seeing progress)
2. Autonomy (getting to do your work when you want, how you want, and where you want)[3]
3. Purpose (getting to do work that feels meaningful, that has purpose)[4]

Pink's advice about money is simple: get it fair then get it off the table. In other words, negotiate a deal that feels fair based on industry standards (comp data), then sign the deal and forget about it. Turn your attention to the enjoyment of the work and three factors above, which give you intrinsic happiness.

[2] http://www.forbes.com/sites/susanadams/2012/11/28/why-winning-powerball-wont-make-you-happy/#1bae6c336e3a
[3] See FCG website for LOL on "Autonomy" for more on this topic and our relationship with ROWE expert, Jody Thompson, founder of Culture Rx and author of "Why Work Sucks and how to fix it."
[4] See LOL on "Playing with Purpose" for more on this topic.

FCG has seen this truth in the best companies we've worked with, the "Focus Elite." Look at the factors that most differentiate them from "average" investment firms.

Success Factors for Top ExCos

Team Factors	Focus Elite	Industry	Difference
I feel fairly compensated for my contributions	5.99	5.18	0.81
We have the right team members to accomplish our goals	6.15	5.41	0.75
There is a high level of trust among team members	5.98	5.30	0.68
Our team openly debates issues	5.79	5.21	0.58
As a team we value and appreciate one another	6.08	5.55	0.53

7 point scale: 7 = strongly agree, 1 = strongly disagree

The biggest differentiator is compensation. When we explored this topic with the "Focus Elite" firms, we found an answer consistent with Pink's research: money was not the main driver for these professionals. Sure, they wanted to be fairly rewarded—and felt they were--but they ranked compensation as a much lower priority relative to the average firm. They were already following Pink's advice: get it fair, then get it off the table. Meanwhile, the Elite firms highly prized the other four factors in the table. No surprise that in FCG's opinion these Elite firms are far less Ego driven. They've taken a pass on insanity. Score one for the "Mature Self."

In a certain sense, the investment industry has itself to blame for employees' preoccupation with money. Human beings respond to incentives. We can be trained. And we've been trained to hear the mantra, "it's all about the money." So, we make that our measure of success. *To heck with the joy I get from doing the work, I want big bucks or I won't be happy!* A reading study done with kids provides a wonderful insight into this mentality. In the study, some children were paid to read books, while others simply read the books for enjoyment. Both groups of children finished their books and completed the study. What happened afterwards was illuminating. The paid readers refused to read if they weren't compensated. The researchers had trained them to think: "You are a fool if you read for free!" In the investment world we train people to believe, "You are a fool to do this fascinating work for less money than the guy across the street." I sometimes remind people that Warren Buffett started his career working for Ben Graham for NO money. He simply loved the work and wanted training from the best.

From all accounts Buffett has never been driven by money. He simply loves the work. Which is why he uttered the famous statement, "I tap dance to work each day."[5]

By hanging out a shingle that says, "Stupid big money made here" the industry created its own problems. How? Well, think who is attracted to stupid big money. Big Egos. You set up a breeding ground for Ego driven people. If you build it, they will come. And, boy, did they. So now the industry is full of workers whose main driver is becoming filthy rich. Working closely with these people, FCG can attest that many are not happy despite the big money. And the ones who are happy, in our view, would be happy anyway. (Assuming they were making at least $75,000.☺)

So, what's the moral of the story? Don't get snared by the Ego. Instead, find meaningful work in a firm you like, and let the money be a residual. Trust me, you won't end up living under a bridge if you work in the investment industry. But you could end up in a cell—padded or regular--if the Ego has its way. Choose sanity.

Remaining sane, one day at a time.

JW

P.S. I have to say it: Keith Robinson on our team does the best comp design work of anyone I know. He's a very sane person. And helps others reclaim theirs!

[5] http://www.cnbc.com/id/49918773