May 4, 2014 Jim's Journal, LOL

I often hear the comment, "People don't change." On the surface, this is a dumb statement. People change all the time in obvious ways: their hair turns gray, or falls out. The face wrinkles. Body sags. We learn things—new language, parenting skills, how to fly a plane or work an iPad. All these are changes. But I get it: the original comment means, "They don't change their basic ***personalities***."

So let's talk about THAT kind of change. Specifically, does coaching ever work? Can you coach "Red Xs" (the "problem children" in organizations) to be different? Can you change THEIR behavior? This is the real $64 question.

Fortunately, the answer is, ***yes***. This week my work involved two Red Xs from different organizations. Both had been identified by the CEO's as poor culture fits in their respective firms. And FCG had been hired to help find a solution. In each case, the Red X is making good progress, becoming pink on their way to full blown green and curious.

How? What is the roadmap? The book that provides a great deal of help is "Mindset" by Carol Dweck (Stanford Professor). The chart below explains her model for assessing and guiding people through personal change:

Growth vs. Fixed Mindset

	Challenges	Obstacles	Effort	Criticism	Success of others
TRUST	Embrace them	Persist in the face of setbacks	Path to mastery	Learn from criticism	Find lessons and inspiration in others' success
FEAR	Avoid them	Give up easily	Effort is fruitless	Get defensive and rebut	Feel threatened by others' success

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The green boxes located *above the line* (that's FCG language) represent the growth mindset of people who can and will successfully change. The red boxes are what Dweck calls indicators of a "fixed" mindset. For example, someone with a growth mindset, when faced with a challenge, will roll up their sleeves and embrace it. The person with a fixed mindset will find excuses and avoid it. In the cases of our two successful coachees from above, each of them started off resistant—so don't give up hope if that is what you see at first—and then shifted to a Growth mindset. Therefore, one important principle of change is that the Red X-coachee has to be open to change. In fact that is the single biggest factor in determining the outcome of a coaching assignment. Dweck calls it "Growth mindset," FCG calls it "curiosity." In either case it is a genuine openness to feedback and willingness to accept challenge.

Sometimes the motivation to be curious is helped by the CEO's statement: *if you don't change, you're fired*. (☺) Admittedly in both cases that I'm referring to above, this happened. And we applauded the CEO's candor and courage. In each case, the CEO and Red X were friends. But also in each case, the CEO made it clear that alienating co-workers through disrespectful behavior was NOT ok. (Also in each case, the firm had lost at least one talented person due to the Red X's offputting behavior.)

Returning to the Dweck model, we see the need for the proper motivation to embrace the challenge. When the motivation is absent, Red Xs do resist change. We work with many firms who have Red Xs and the CEO avoids the critical step of saying, "you have to change if you want to stay here." Most of the time nothing changes. Remember, there are two ways to motivate change: pain and pleasure. We prefer pleasure (that is, creating a really attractive vision of ultimate success), but sometimes pain (threat of being fired) is the only means of getting a person's attention.

One of the Red X success stories involves a leader—call him Larry--and two senior managers reporting to him. Larry received a 360 feedback report, filled out by his boss (CEO), colleagues and direct reports. The news was sobering to Larry. After absorbing the "bad news" (We like to repeat the Weight Watcher slogan: "there is no such thing as failure, just feedback."), Larry accepted the challenge that he must change at work. He set up two major development goals: 1) be nicer, 2) stop micro-managing. Immediately, he began doing behavioral things—saying "good morning," asking people "how are you?" smiling more, etc.—and achieved some good success early on. (Some co-workers said Larry was definitely trying to change, though the efforts seemed a little forced. FCG response: of course, it's new behavior!) FCG uses short surveys to track the progress of coachees, and two months after Larry began his coaching journey, we took a measurement. Good news. Many co-workers reported progress on Larry's part.

Now it was ready for phase two. The "be nice" part was improving, but micromanaging was still a problem. Notice in the Dweck model above that "obstacles" can trigger one of two responses: 1) Give up, or 2) Persist. To Larry's credit, he doubled his resolve and started the harder work of "re-wiring" himself around micro-managing. Re-wiring in this case meant that Larry would have to let go of control and start to trust his direct reports. Larry's concern was that his directs would not be able to perform the work at the same level that he himself could, which is a common concern. But his two directs had expressed a deep desire for more autonomy and empowerment. They wanted to step up in their roles.

The transition from Larry as "hands on" boss to "hands off" boss required a real stretch for him. We had several sessions of what we call "T,2,1" coaching. Specifically, we met for one hour as a team (T), then we had half hour sessions with Larry and each direct report individually (2), and finally we checked in with each team member individually (1) to see how the process was working. These T21 sessions require half a day of the team's time, but worked very well in really addressing and resolving the delegation of more duties to the team members. (To learn more about the FCG delegation process, ask Liz lseveryns@focuscgroup.com to send you our worksheet)

So, I'm writing about this topic—Red Xs—because they are NOT lost causes. The two cases I refer to above have been real turnarounds. The key is Dweck's model (based on our "above/below" the line concept) and identifying whether or not the person has a "growth mindset." What FCG knows from experience is: Fixed mindsets who want to change, CAN. However, Fixed mindsets who dig in and declare they will NEVER change should be taken at their word: they won't! So decide accordingly.

Harvard Business Review: May

FCG is a big fan of HBR. Each month I will write about the pieces that I think provide useful insights/practices for asset management firms. Last month HBR contained an interesting piece on Bridgewater Capital, which emphasized the firm's commitment to having a deliberately developmental organization (DDO). In short, a learning culture, in which egos are put aside in the interest of growing and learning. (Again, ask Liz for this article if you wish.)

This month's HBR is no disappointment: four good articles. A one-pager on benefits of coaching, written by a CEO. ("Leaving it all on the Field") Author Jeff Jordan notes that moving from individual contributor (like a trader or analyst) to a manager is an "entirely new set of skills. The best analogy I have is a sports one: I started as a player and quickly had to become a coach, and then a general manager!" Relating to my first topic above, Jordan writes: "embrace those 360-degree evaluations and learn from your peers and direct reports. Find a mentor to guide you. And engage a coach to help you work through your issues and develop the skills you need." I know: shameless advertising for FCG's coaching business but hey, it works as noted above!

The second useful article from HBR was called "Blue Ocean Leadership." Many of you know that we use the Blue Ocean Strategy book in our strategy work. This is by the same authors—Kim and Mauborgne—and employs the same nice visuals, called Leadership Canvasses. These canvasses lay out the current leadership activities (i.e. what behaviors your leaders are mostly doing now) vs. the activities that your employees think would be most effective. So, the authors call it a map of "as-is vs. to-be." When the analysis is performed, the maps tell you the following:

Eliminate: what acts and activities do leaders invest their time and intelligence in that should be eliminated?	**Raise**: what acts and activities do leaders invest their time and intelligence in that should be raised well above their current level?
Reduce: what acts and activities do leaders invest their time and intelligence in that should be reduced well below their current levels?	**Create**: what acts and activities do leaders invest their time and intelligence in that the currently don't undertake?

Many of you will recognize the well-used model of "start/stop/continue" in this model. In some ways, Blue Ocean Leadership is a sneaky way to alter the culture of an organization. The article gives an example of a firm that used the "leadership canvass" to move from "monitor and coordinate middle management initiatives" (i.e. micro-manage) to "Delegate and chart the company's future." FCG is working with several firms right now that have set a goal of less micro-managing and more empowerment of their managers.

Another HBR article that was useful was called, "From Purpose to Impact" with the central message being: finding one's personal mission (i.e. purpose) is a powerful motivator for leaders. FCG has written and spoken about what we call "genius" for years. The idea is: what are your core talents and abilities that define your raison d'etre (purpose). The article has some good ideas about finding your purpose statement:

1. What did you love doing as a kid? Our core genius tends not to change over time.
2. How have two of your toughest challenges shaped your career? The universe tends to serve up challenges that test our purpose. (So pay attention!)
3. What do you most enjoy doing in your life today? What gives you energy?

And then a really important tip for what to do with your answers to these questions: "Grapple with these questions in a small group of a few peers, because we've found that it's almost impossible for people to identify their leadership purpose by themselves." In our experience, there is wisdom in this: get feedback. The article concludes with ways to attach your purpose statement to future goals, from 3-5 year goals, all the way down to next steps. (Ask Liz for a copy if you want to read it)

Finally, an interesting HBR piece on country culture (as opposed to company culture). "Navigating the cultural Minefield" looks at eight behavioral scales, shown below:

Comparing Management Cultures

COMMUNICATING		
low-context		high-context
EVALUATING		
direct negative feedback		indirect negative feedback
PERSUADING		
principles-first		applications-first
LEADING		
egalitarian		hierarchical
DECIDING		
consensual		top-down
TRUSTING		
task-based		relationship-based
DISAGREEING		
confrontational		avoids confrontation
SCHEDULING		
linear time		flexible time

FCG uses a similar approach in analyzing firm culture, but with different scales. After reading this article, I wondered if we should add some of these scales to our analysis. For example, the "Disagreeing" scale is interesting: how much does a firm believe that confrontation is useful? Is open confrontation harmful or helpful to collegial relationships? Another one that is evident in the investment world is "communicating" (low or high context). In other words, low context is defined as "precise, simple, explicit, and clear." (Many investment firms thrive on this style.) While high context is "sophisticated, nuanced, and layered." (You have to read between the lines.) And still another is Evaluating, which relates to feedback. Does your firm encourage direct negative feedback or indirect negative feedback? French and Spanish people tend to be nuanced in overall communication but very frank in their criticism. Israel and Russia are also direct in negative feedback. Canada is very indirect. (Do I need to say, ask Liz for the article? No? Ok, you are getting the message…)

And from the Wall Street Journal this week, more evidence that playing "above the line" is important to good decision making: "The research shows us that the more stressful a deadline is, the less open you are to other ways of approaching the problem," says Dr. Boyatzis, a professor in the departments of organizational behavior, psychology and cognitive science at Case Western Reserve University. "The very moments when in organizations we want people to think outside the box, they can't even see the box." When we go below the line, the fight/flight/freeze response is triggered and high level thinking is impossible. (Ask and ye shall receive…for this article)

Finally, my new book for the week was **Flash Boys** (Michael Lewis). It's a fun read, especially if you like the word "f_ck" which appears every other paragraph. (A bit like watching an early Eddie Murphy stand-up routine.) But also the book is disturbing, if you have any moral compass at all. Half way through it, I had worked myself into a lather about the immoral devils who were using high frequency trading to line their pockets at the expense of the average investor. The hero in the book is Brad Katsuyama and the bad guys are referred to as "predators." Brad says, "People set out this way to make money from everyone else's retirement account. I knew who was being screwed, people like my mom and pop, and I became hell-bent on figuring out who was doing the screwing." (Sometimes Lewis favors the "F" word, at other times he moderates to the "S" word.) Lewis paints a vivid picture of greed in the markets. And Brad's outrage when he spots it: "If I can fix something and f___ these people who are f___ing the rest of this country, I'm going to do it." Hence, my lather. I continued to fume about the injustice of HFT until I began reading other pieces like this one in the CFA magazine: http://viewer.zmags.com/publication/dda0e1b9?page=16#/dda0e1b9/17 or this one from Larry Siegel: http://advisorperspectives.com/newsletters14/Tempest_in_a_Teapot.php Each of them takes a much more sanguine view of high frequency trading, stating that HFT has replaced the specialists and spreads have narrowed considerably. I conferred with Michael Falk, CFA on our team and he echoed the same sentiments that much of the HFT is "pennies on the stock price" so it is not a huge deal to worry about. I also checked in with longtime friend Wayne Wagner—founder of Plexus, a firm that specializes in trading metrics—and his response was: "My quick views -- largely unsubstantiated -- is that it is a reasonable price for instantaneous liquidity in a well-functioning, low-error system. What comes next is extensive efforts by lawyers and bureaucrats to f___ it up to THEIR benefit." (Not sure if Wayne's choice of language was random or in keeping with the spirit of Lewis' prose. We may need to wash some mouths out with soap. ☺)

At any rate, my lather began to subside.

Here is my personal take-away from Flash Boys, which I am sure is unique to me. There is a character in the book named Sergey Aleynikov who is arrested by the FBI for stealing computer code—largely useless to anyone--from Goldman Sachs. Lewis describes Sergey's absurd trial—none of the jury understood the jargon--and his imprisonment and sums it up by saying "he lost his marriage, his home, his job, his life savings and his reputation." In Wall Street's eyes he was the biggest loser. And yet, when a juror said to him, "Why aren't you angry? How do you stay so calm? I'd be f___ing going crazy!" Here is Sergey's response:

"Sergey smiled again. 'But what does craziness give you?' What does negative demeanor give you as a person? It doesn't give you anything. You know that something happened. Your life happened to go in that particular route. If you know that you're innocent, know it. But at the same time you know you are in trouble and this is how it's going to be. To some extent I'm glad this happened to me. I think it strengthened my understanding of what living is all about.'"

What Lewis describes here is similar to what people like Eckhart Tolle (**Power of Now**), Byron Katie (**Loving What Is**) and Lester Levinson (**Happiness is Free**) also describe. Namely, they all hit emotional bottoms which caused their egos to dissolve and left them in profound peace and joy. Sergey has this same realization:

"When I was arrested, I couldn't sleep. When I saw articles in the newspaper, I would tremble at the fear of losing my reputation. Now I just smile. I no longer panic. Or have panic ideas that something could go wrong."

One of Sergey's few remaining friends would visit him in prison and report, "Every time I would come to visit him in jail, I would leave energized by him. He radiated so much energy and positive emotions that it was like therapy for me to visit him. His eyes opened to see how the world really is…He could have considered himself a tragedy. And he didn't."

So, what I take away from Flash Boys is NOT the 274 pages that describe people who are lost in their greed and fear and limited vocabulary (f___), but the one page on Sergey who emerges from the Wall Street experience with a new consciousness. We're not recommending that you go out and destroy your life and then wait for enlightenment to settle on you! But I found Sergey's story fascinating and uplifting.

My recommendation: read the NYT's article by Lewis rather than the long book. (We have it…) And tune in next blog when I review Werner Erhard's piece called, "How to Put Integrity Back Into Finance" which addresses many of the greed issues raised in Flash Boys. (Werner is the guy who founded EST—Erhard Seminar Trainings—more recently known as The Landmark Forum. He is a fascinating character with much to say on the topic of integrity.)

And finally finally, since this week's journal entry is liberally laced with F bombs, I will use this excuse to insert my favorite NYC culture joke:

An Asian man is on the streets of NYC asking strangers how to get to Grand Central. After several failed attempts, he finally turns to yet another person and says, "Excuse me sir. Can you tell me how to get to Grand Central…or should I just go f___ myself?" ☺

I'll have that soap bar now…