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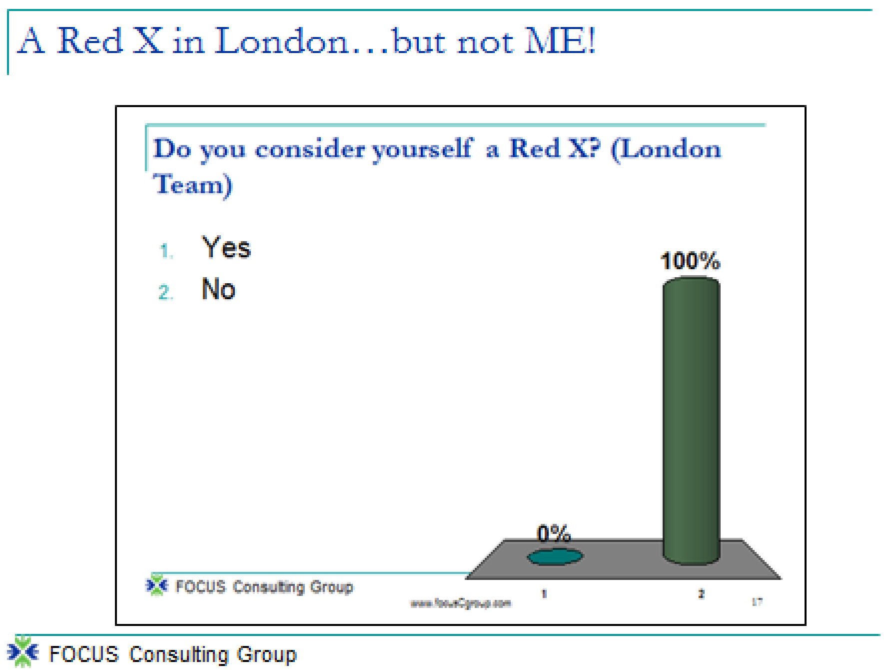
LOL Journal: Defining the Red X: Characteristics of Clever People

About 80% of investment firms acknowledge having Red X's. FCG coined the term Red X; it means a talented star who is difficult to manage and prickly to co-workers. Many of our assignments involve helping senior leaders deal with Red X's. Many of the senior leaders ARE Red X's. (And don't know it.) This is a tricky aspect of the Red X problem: most people don't self-identify as a Red X. FCG routinely shows this slide to audiences. It's an investment firm's executive committee, who all acknowledged that there were multiple Red X's on the EC but when asked, "are YOU the Red X?" responded as follows:



There you have it. The problem in a nutshell. So, let's get more precise about defining and dealing with Red X's. Most firms acknowledge having them, which is good because in a talent business, you need top talent. But what exactly ARE Red X's?

Enter the book, "Leading Clever People" by Goffee and Jones (hereafter "Gojo") of the London Business School. Many of the best books I read are recommended by clients, and this one came from Emilio Gonzalez, CEO of BT Investment Management. Over dinner in Sydney, Emilio explained how this book had given him insights about how to manage the clever people (Red X's) in his organization. I read it and agree. So, I will present Gojo's research on clever people (from all industries) and then comment on how it fits with our experience in the investment world.

Gojo define clever people as follows:

Clever people are highly talented individuals with the potential to create disproportionate amounts of value from the resources that the organization makes available to them.

Gojo add that we are not talking about solo artists but rather talented people who need an organization to achieve full potential. This point is important. Many Red X's are rather oblivious to this point. They believe that they could do it alone.

One CEO put it this way, "Clever people might not feel that they need the firm, and they might feel that they've got enough brains to do all sorts of other things, but the fact is, they stay. They feel they've got room to do what it is they need to do and that they might be vulnerable if they weren't in the firm. There is a protection element in the firm, even though they might hold it in contempt." This statement rings true in FCG's experience. One star PM who is currently wrestling with his CEO for more comp mirrors this sentiment exactly. He continually brings in evidence from bigger firms that he is underpaid relative to their stars, to which his CEO responds, "We are paying you as much as we can without breaking our financial model. If you want the higher pay, you'll have to go to one of those firms." The PM stays put but continues to complain.

Interestingly, Gojo believe—and we agree—that the clever people will stay "if you can offer them a great place in which to express their cleverness and other clever people to work with." And then a very important conclusion for the comp issue:

"Even in companies that have high-compensation strategies for clever people, good promotion prospects, and exciting projects to work on, the difference between a high retention rate of the most talented and an average retention rate is in how they are led."

Uh-oh. Now the onus is back on you, the leader. So, let's explore what are the characteristics of Red X's and how do you best lead them.

First, what are the common characteristics of a clever person? Gojo list nine, and I will review them as they relate to the investment world.

1. **Cleverness is central to their identity.** They ARE their work. Their passion for their work defines them, and they identify with their craft, NOT the firm. They are driven and often perfectionistic about their work. They want to get it just right. They don't like relying on others, so they tend to be poor team players. They want to believe that their own cleverness can get the job done. Sometimes their independence creates a hostility towards the firm.
   FCG comment: True and false. We see this very often with star analysts or PMs. They love their work, want to win, and don't suffer fools lightly. And their chief loyalty is to the investment craft. They are always prepared to leave and join another firm or start their own shop. However, we have encountered some star investors who are quite loyal and do identify with their firm. Oftentimes, the founder of the firm is the star PM and is completely loyal to the firm he started.

2. **Their skills are not easily replicated.** The knowledge of clever people is tacit. It is embedded in them. A great deal of their cleverness resides not in WHAT they know but WHO they know and HOW they know it.
FCG comment: Indeed. And this is one of the dirty little secrets in the investment world. Many investment processes can NOT be replicated because they do rely on one clever person. Bigger organizations—like a PIMCO with Bill Gross leaving—may have enough quality bench strength to fill in. But many firms that we work with have investment teams of five people: one seriously clever person, with four analysts who help with research. In our view, it is often the case that none of the four researchers could replace the star PM.

3. **They know their worth.** This point follows from #2. If the clever person is truly good, then chances are they know that their skills are unique. And this is a challenge for leaders: "confident in their own worth and ability, clever people exert pressure on their leaders. Their skepticism about the value of leadership puts pressure on leaders to demonstrate their worth."
FCG comment: True. Which is why leading clever people in investment firms is so challenging. And why comp negotiations can be so difficult. (It doesn't matter what McLagan SAYS you are worth, clever people will debate it. And skillfully. FCG's work in comp appreciates this aspect of clever people and involves skillful mediation about what fair comp means. You must get the clever person to buy in.)

4. **They ask difficult questions.** They are passionate and willing to debate. In fact, many CEO's consider this a prerequisite for clever "status." You must be willing to defend your ideas. Challenging assumptions and cherished beliefs is what makes clever people so valuable.
FCG comment: especially in the investment world. This point in particular is amplified by the nature of markets: in order to win, you MUST see things differently from the rest of the world. You must be willing to challenge conventional views. The leader's role is to live with the discomfort that accompanies this dissident thinking. And even to appreciate it. Despite their challenging personalities, clever people still want to be valued for their contributions. Their egos still need stroking. Even though they deny it!

5. **They are organizationally savvy.** They are expert gamers. They typically don't like politics, but when their hands are forced, they are clever and can play with the best of them.
FCG comment: I had to think about this one. My initial thought was, "no, most clever investment people are rather naïve about office politics." But as I inventoried the many clever people we've worked with, I realized that they are good politicians when they need to be. Especially in the investment world because they understand tradeoffs very well. And they understand game theory. And they are smart.

6. **They don't like hierarchy and don't want to be led.** If there is one thing that defines clever people it is that they don't want to be led, and they are absolutely certain they don't want to be managed! ☺ They have an undisguised disdain for organizational hierarchy as captured in the org chart. They don't give a hoot about titles. You've got to influence them through your skill and knowledge. At the end of the day, they are a "show me" group. Smart leaders know that you cannot lead these clever people, the best you can do is guide them—gently—in the desired direction. They are likely to be motivated by factors other than money and power.
FCG comment: Well, not entirely. Money is a measuring stick for them. And the star PMs seem acutely aware of what "winning" and "losing" comp packages look like. Performing well and

then getting a big bonus is the equivalent of scoring a touchdown and then spiking the ball in the end zone. If you deprive PMs of their victory dance and spike, they don't like it. After all, it is a money industry, so the generic rules for clever people—about money—are a little different in the investment arena. Money does matter as a metric of success. As to being led, the advice absolutely applies: don't make the mistake of thinking that investment professionals will gladly salute and carry out orders. They would more likely give you the one finger salute, as to carry out your orders. This is where the skill is required from investment leaders; they must know how to softly lead through influence, not orders.

7. **They expect instant access.** Clever people are very absorbed in their own thinking, so when they get a great idea they want it considered immediately. Clever people have very low boredom thresholds. Very low. They tend to hate needless meetings. They are very conscious of the value of their time.
FCG comment: Absolutely true. Fortunately for PMs, they often get to act immediately on their ideas, which is very gratifying to them. Unfortunately for analysts, they often do NOT get to act immediately on their ideas and end up frustrated. CIOs and PMs need to keep in this mind as they manage a research team. These people consider themselves clever, and want to play by the same rules that other clever people enjoy. Smart CIO/PMs will give them as much freedom and access as they can.

8. **They want to be connected to other clever people.** Clever people need other clever people in order to achieve full potential. Even the most self-absorbed PMs will grudgingly acknowledge that they need good ideas and good research to win. Clever people need others; they need organizations to plug into. Clever people enjoy networking with like-minded or like-qualified individuals. For clever people, networking is not a social nicety but a source of perpetual improvement and bright ideas.
FCG comment: Yes and no. Certainly the PMs and analysts that we know have their sources for good ideas. Some internal, some external. But the biggest "ask" that we get from large, global firms is: How do we get our bright people talking to one another, so as to get some synergies? There is one firm FCG has worked with that leads the pack in this respect. How? They have done it through technology. One of their senior investment people also has expertise in IT and has helped them develop a very user-friendly intranet which allows them to share investment research in a powerful way. This firm was able to cite many examples of investment triumphs via this rich exchange of ideas. For most firms, though, it is hit or miss.

9. **They won't thank you.** "There's a part of me, a slightly dark part of me, that thinks these clever people wouldn't recognize management or leadership if you hit them in the face with it," one slightly forlorn leader confided. (Sound familiar?) This may be true, but it gets to the heart of the challenge. Clever people might respond that leaders wouldn't easily recognize great science, a world-changing computer program, or even and innovative new coffee machine if it was thrust before them. As Gojo say, "you know you're a success when you hear the clever people say you're not getting in the way too much." ☺
FCG comment: We smiled when we read this part. For years we've been saying that the investment industry suffers from ADD: Appreciation Deficit Disorder. Despite the research coming out in neuroscience around the brain and gratitude—being appreciated—few investment leaders or practitioners have changed their behavior much. When we ask CIOs why they are so stingy with their praise, we get responses like: "Well, we pay them don't we!?" or "If we praise

> *them, they'll ask for MORE money." And our favorite one: "if we praise them, they'll stop working so hard." Sorry, but those beliefs are just wrong. Our experience—and the neuroscience—point in the opposite direction: appreciate and value your staff and they will work harder, demand less money, and be far more loyal.*

So, there have it: the defining characteristics of clever people. Or what FCG calls Red X's. Mull over these for a bit and next week's LOL will cover the author's suggestions for leading these clever people. We'll comment on those ideas and tailor them to our experience in the investment world.

If you absolutely can't wait, give us a call and we'll give you some spoilers in advance.

Stay curious,

Jim and the FCG team