



FOCUS CONSULTING GROUP

## COMPENSATION AND OWNERSHIP

From: *Investment Leadership*

*Jim Ware, CFA*

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*“Compensation ranks only fifth on the list of factors that contribute to positive feelings and job satisfaction.”<sup>1</sup>*

—Luke Knecht and Richard Lannamann, Russell Reynolds Associates

*“Compensation must be aligned with what the firm is trying to accomplish and must reflect the immutable fact that people are the only assets in the business.”<sup>2</sup>*

—David Minella, when he was President of LGT Asset Management

*“It’s about communication and setting expectations.”<sup>3</sup>*

—Deb Brown, Managing Partner, Russell Reynolds Associates

*“The best people simply will not stay with firms that do not provide some type of ownership.”<sup>4</sup>*

—Charles B. Burkhart, Jr., Founder, Rosemont Investment Partners, LLC

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“We should talk about compensation; we know people are unhappy with our current arrangement.” said the president of Allstar Capital in the planning meeting for the offsite. Then he added, “But let’s not. There’s already enough tension without tossing that one on the table.”

The director or research filled the ensuing silence with, “We are negotiating an increase for one of our key players so that he stays during this crunch period.”

The president resumed, “We’ve been meaning to talk through these compensation issues but with the pressure that we’re under, it would be a terrible time to try to have that discussion.”



### It's rarely about the money

True to form, Allstar had committed two classic mistakes around compensation. First, they had avoided a careful and complete discussion with the team members about their compensation philosophy. Specifically, what do you value and reward at your firm? How do you translate that into a compensation structure that motivates people to perform in the firm's best long-term interest? Secondly, they had started cutting side deals with various staff members to keep them happy. They were managing compensation on a case by case, ad hoc basis. In some instances, they were counter-offering bids from competitors. If there is one thing that we learned about compensation at the best firms, it is this: don't get seduced into the counter-offer game. Statistics show that the same people who successfully negotiate for a counter-offer leave the firm within 18 months anyway. Counter-offers don't work because it isn't about money. As we stated in Chapter One in the section about industry myths, Money is not everything. Study after study confirms this.

To cite just a few: A study by Russell Reynolds Associates in 1996<sup>5</sup> addressed the question, "what are the major factors influencing job satisfaction for professional investors?" The factors rated as follows:

<i>Factor</i>	<i>Percent of respondents indicating that this factor was a "positive" one</i>
Professional achievement	86
Personal or professional growth	79
Work itself	78
Taking responsibility	77
Compensation	54
Career advancement	52
Recognition	52
Relationship with supervisor	40
Relationship with peers	40
Impact on personal life	35
Status	33
Security	30
Work conditions	23
Relationships with subordinates	21

Compensation was certainly a factor in employee satisfaction, but not in the top grouping.



A more recent survey comes from Capital Resource Advisors <sup>6</sup>. They survey hundreds of major investment firms on various issues, including factors in employee satisfaction and commitment. The results for the summer of 2002 were as follows:

Leadership credibility and trust	84.8
Organizational culture and purpose	69.6
Opportunity for Growth and Development	50.0
Challenging, Meaningful Work	50.0
Total Compensation	50.0
Relationships with Coworkers, Customers	39.1
Work Recognition	39.1
Quality of Life/Work Balance	28.3
Ownership	24.4

Again, compensation was certainly a factor in employee satisfaction and commitment, but it was a distant fifth to the main topics of this book: leadership and culture, which rated #1 and #2.

Another cut of the data looks specifically at why investment professionals leave their jobs. Since the name of the talent game is attracting and **RETAINING** top professionals, this survey aims directly at the question which Allstar was facing, “How do we keep the top people on our staff?” This survey was conducted by Moss Adams LLP <sup>7</sup>. It specifically asked investment professionals why they left their last job. The results were as follows:

<i>Reason for leaving an investment firm</i>	<i>% of respondents citing this reason</i>
Terminated for poor performance	23%
Better opportunity elsewhere	18%
Incompatible with firm culture	14%
Lifestyle change	14%
Relocation	11%
Terminated for cause	7%
Retirement	7%
Do not know	4%
Insufficient compensation	3%
Layoff/reduction in staff	2%

Notice that compensation hardly registered as a reason for leaving. Our experience has shown this to be true. Compensation is often presented as the main problem when actually it is not. One experience with a client showed this most profoundly. The staff of a private placement division felt bitter and resentful that they were being asked to perform in the top quartile versus



their peer group, when they were being paid in the bottom quartile. Clearly, this was an unfair arrangement. The staff fought the unfair arrangement and eventually did prevail in getting higher salaries. For a short while there was celebration and improved morale. But a short time later, things were back to usual. The staff was grouching again and relationships were strained. When we asked one of the staff why the raise in salaries hadn't done more good, we got this answer, "it's not really about the money. The issues are deeper than that." We pushed a bit to see what "deeper" meant and got, "We don't really trust the leaders and we don't feel respected by them." But as the story and data above indicate, it is rarely about the money.

Another money story from a European colleague. Two of his friends worked at Goldman Sachs, a firm known for its outstanding culture. They liked the firm but resented their boss. Eventually, the two left Goldman for another well-known firm in exchange for more money and relief from the "bad" boss. Leaders at Goldman learned of this incident and fired the bad boss, while simultaneously contacting the two ex-employees and urging them to return. In the end, the two did return to Goldman for more money than they were making before at Goldman but less money than they were being paid by the new firm.<sup>7</sup>

Why then do we hear so much about money in this particular industry? Money is a difficult topic in general, but it seems even thornier in the investment world. Three reasons may explain it:

1. Performance is difficult to measure. Attribution analysis is still more art than science. Is an analyst skillful or lucky? Many money managers are completely unwilling to face up to the statistical realities surrounding this question. As Mark Hulbert, author of *Hulbert Financial Digest*, writes, "you would need 308 years of beating the market by 1 percent annually to satisfy a statistician at the 95% level."<sup>8</sup> So, of course, this brings up the next question: could we ever evaluate performance in a person's lifetime? Well, yes, if the analyst could "beat the market by around 12% a year. In such a case, the statisticians would be satisfied after only a dozen years of beating the market." Even Bill Miller's recent incredible record at Legg Mason falls short of this hurdle.
2. Money is central to the investment professional's life. They deal with it every day. Many chose the profession because of a fascination with wealth and the accumulation of it. It doesn't work to say to these people, "You're really not upset about the money, but rather what the money represents: self-esteem, success, fairness." And if you did say this to them, there is a danger that they would hurt themselves laughing.
3. Investors are highly competitive by nature. They are very interested in keeping score and winning. (In a simulated game called, "The Prisoner's Dilemma" conducted at an AIMR conference, investment professionals distinguished themselves by being the MOST competitive group that we had ever seen! They were also the most creative group, cutting deals and creating third markets.) Compensation represents the obvious metric for scoring and winning.

We found that the top leaders would basically agree with the points made above. People in the investment business probably are interested in money—and keeping score--more than the



average person. It's a question of degree. Here the top leaders agreed that "we don't want people whose top concern is money. Better that they leave." Dave Coolidge at Blair even tells candidates, "if you want the big Wall Street money, then go to New York. That's not what we're about." Jack Brennan at Vanguard is firm on the same point: "We don't counter-offer."<sup>8</sup> I remember a conversation in 2002 with Langdon Wheeler at Numeric Investors L.P. where he said that he was getting several calls a month from high paid Wall Street analysts to come work with him. Wheeler told these callers that he couldn't pay them the high salaries they were used to. Invariably, they each said, "I don't care about the money. I just want to work in a place where it's enjoyable."<sup>10</sup>

Leaders of the top firms would laugh at the idea that serious teamwork is a money issue. As Thomas Luddy, Chief Investment Officer at J.P. Morgan, said, "Teamwork is a cultural issue; it is an accumulation over a long time of many little things—things that give constant reinforcement to teamwork activities within the organization. And although a firm may have some compensation incentives, if it does not have the constant cultural reinforcement and if it is not attracting people that are motivated by and enjoy being part of a team, annual compensation incentives are not going to foster teamwork."<sup>11</sup> Our experience confirms this notion: you can't buy teamwork any more than you can buy friendship.

#### It's about clarity and fairness

The real question becomes, "what does money mean?" With the median total compensation for a seasoned investment professional at \$245,000, not many of them are starving to death.<sup>12</sup> So, what is important about money? For David Maister, Harvard professor and consultant to professional service firms, money is symbolic: "at least as important as dollars and cents are the signals communicated, or at least perceived to have been communicated, through compensation decisions. These messages—about what gets rewarded and about the relative status and respect accorded to each partner—affect not only the firm's culture and atmosphere, but also, by influencing how partners choose to spend their time, its strategic direction."<sup>13</sup> The key to money's symbolic importance was summarized well by Deb Brown at Russell Reynolds Associates, who is partnering with AIMR to conduct a large industry study of compensation. She told us, "People need to believe that they are being paid fairly for their contribution to investment performance and business results."<sup>14</sup> Fairness is the key. Consider this story from James Rothenberg, president of Capital Research and Management:

"If a firm wants fairness, generosity, and commitment organizationally, then the top of the organization must show the way. I learned this lesson early in my career at Capital. When I was first offered the opportunity to buy some stock in Capital, I was excited, and I bought the stock. Little did I know in 1973 that we were about to enter a very difficult period; it was one of the few times in my experience that the value of Capital stock, which is determined by a formula price, actually declined significantly in the following 12 months. Being a brash young analyst at the time, I went to the research director and said, 'It would be wonderful if you would give me the opportunity to buy some more stock and average down.' A few weeks later, the chief financial



officer walked into my office and offered me an amount of stock equivalent to my first purchase but at the lower price; the stock was sold to me by the then president of the company and the son of the founder. The lesson? Fairness, generosity, and commitment must come from the top of the organization.”<sup>15</sup>

Leaders and compensation directors at investment firms around the world echo the same sentiments. One woman who heads up comp for a \$60 billion asset manager said that it must be “fair, equitable, and competitive.” Before establishing their compensation plan, she and the compensation committee spent a lot of time developing the philosophy behind it. For them, the driving force was to create fairness by tying all compensation to an objective standard. They have avoided any case by case treatment. They have defined a peer group and use the McLagan data because she believes that it lends to the credibility of their system. Like Coolidge and Brennan, she makes it clear to the candidates that they could make top dollar elsewhere. But her firm offers intangible benefits like work/family balance, onsite childcare, convenience store, walking track, etc. Furthermore, new hires are given big responsibility early and are provided many professional growth opportunities such as tuition reimbursement, CFA program, etc.

An investment professional at the Principal Financial Group in Des Moines made many similar points in talking about compensation. Principal prides itself on providing a great work experience, as seen in their selection to the “Top 100 Places to Work” survey. Compensation is team-based and competitive but not necessarily top dollar. People at Principal know that more money can be made elsewhere but they are part of the Principal family and culture. New hires, for example, are assigned a welcoming committee which helps them figure out the basics of community life: public transportation, school systems, real estate tips, even restaurants and entertainment. What value do you place on that? Plan sponsors are thinking about this question more seriously as resources get increasingly limited. What they cannot offer in terms of eye-popping salaries and bonuses, they can make up for with intangibles.

Employees who leave Principal looking for greener pastures and, presumably greener paychecks, often return to the fold. The investment professional told us, “In the last two years, more than 13 percent of newly hired employees are people who’ve left the company and returned. There’s something that brings people back, something that can’t easily be replicated elsewhere. It’s got to be the culture. Since I’ve worked in this division at Principal, six people have left voluntarily. Every single one of them came back within 2 years. I find that fascinating!”<sup>16</sup> At first, we did, too. (Given the strength of the industry myth, “Money is everything.”) But as we did more research we found that a strong, positive culture definitely has an economic value, though it is hard to quantify.

#### Communication and expectations

Compensation is a difficult subject that must be tackled sooner rather than later. In fact, we recommend that firms which are doing foundational work—vision and values—should include compensation in their agenda. These questions should be addressed:



- What is your compensation philosophy?
- How will your philosophy be tied to performance evaluations?

But, as we saw in the case of Allstar Capital, it's all too easy to avoid the conversation. Deb Brown agrees, "It's all about communication and setting expectations, and most firms don't do this well."<sup>17</sup> They don't do it well for two reasons: first, because under any circumstances it's a tough conversation. Second, most firms haven't done the foundational work that we describe in the first few chapters of this book. David Maister, in his book on managing the professional service firm, explains why this foundational work is key:

"In a firm divided over values and direction, no judiciary, elected or appointed, will ever be fully trusted. Strategy, governance, and compensation are inextricably intertwined, and lack of consensus in any one spills over into the others."<sup>18</sup>

#### Measurement vs. Judgment

So, in trying to devise a good compensation system, leaders must be prepared to include the conversation as part of the foundational thinking. Allison Winter at Northern Trust says, "When building an incentive plan, management has to start by looking at what the incentive plan is trying to accomplish."<sup>19</sup> Leaders must tie the incentive plan to the vision and values of the firm. And they must aim for fairness as the key to keeping investment professionals satisfied. Bill Nutt, chairman of Affiliated Managers Group, agreed that compensation becomes a secondary consideration for investment professionals once they feel they are being treated fairly. Then the other factors listed in the surveys above become central to their happiness.

Further, leaders must accept that compensation will always be a judgment call rather than strictly a numbers game. Patrick O'Donnell says, "the basic reason that quantitative evaluation processes do not work entirely is that measuring an analyst's impact on an organization is complex, difficult, and often has unintended results. For instance, if we tell analysts that they are going to be paid on the basis of a year-end evaluation, and if those analysts have a wonderful first half of the year, we have created an incentive for them to coast for the second half of the year."<sup>20</sup> Maister agrees that quantitative systems are not optimal. He says, "Decisions about compensation must result from a judgment process, not a measurement process (although, to be sure, judgments should be formed with knowledge of whatever statistics are available). The ways to improve a measurement system are usually obvious. How does one improve a judgment system?"<sup>21</sup> In answering his own question, Maister goes on to say that there must be a process in place that people have agreed is fair and works reasonably well. He identifies these factors, using a judicial analogy, in providing the best possible process:<sup>22</sup>

- If the people being judged do not trust the judges, the system won't work.
- The laws governing the decision must be consistent and well understood.
- Judgments should not be made until a sincere effort has been made to collect all pertinent information, and the "defense" has been allowed to make its case.



- Judgments that are explained are more readily understood and accepted than those that are not.

As obvious as some of these factors may seem, it is remarkable how few firms follow them. Following these rules is imperative, though. As one investment professional said, “his satisfaction with his compensation and that of others largely depends on his perception of the legitimacy and integrity of the group deciding compensation.”<sup>23</sup> Again, the *perception* of fairness is key. This is one reason why communication is so important. Staff should get clear descriptions of the process and the data so that there is no room for them to make up stories in the absence of information. Poor data is the single biggest reason why the compensation judges become mistrusted. Each investment professional should have a written copy of the criteria for success and their performance relative to the criteria. Compensation discussions should be handled face to face. 360 feedback is also useful for the “intangible” part of the compensation. Colleagues should be solicited for input on their co-workers with questions like,

- Which of the professional staff have you worked with closely in the last year?
- For those you worked with, how would you rate their performance and contribution to the firm?
- In what ways does she/he excel?
- In what ways that we may not know about has she/he contributed to the firm’s success?
- For what should this person be recognized and praised?
- If you were to encourage this person to do one thing differently, what would it be?

Brandes in San Diego compensates their analysts on the quantity and quality of their research, not of the performance of the stocks. Their compensation philosophy holds that the eleven person investment committee should be held accountable for stock performance. After all, it is their job to decide if the analyst has done good work and if the stock is undervalued. The analysts are then freed up to dive into the analysis and not become hypnotized watching their recommendations move up and down with the market. This system also avoids the problem of analysts gaming the system, as mentioned earlier. The investment committee incorporates lots of feedback from co-workers in their evaluation of analysts.

Having carefully thought through the compensation philosophy and gathered objective data and subjective data from co-workers and evaluated this data with a formal analytic approach (to ensure a sense of fairness, that all are treated the same way), then the decisions must be communicated to all concerned. Part of the communication involves explaining the results, so that they are accepted as fair. Even when an employee perceives that he has not been dealt with fairly, explanations can go a long way to smoothing the feathers. Many instances like this that we’ve witnessed were due to a misunderstanding on the part of the employee. For example, in one case an analyst was very upset about what seemed to be a low bonus award. (No one’s sense of fairness seems to extend to the point of getting upset about being overpaid...) When the leader in this case showed the analyst all the personal calculations and reviewed the team and firm results, the tension dissipated. The analyst had performed so well that year that the modest



bonus just didn't seem fair. It wasn't until he saw the team's results and the firm's results, both of which were mediocre, that he accepted the amount he received.

Should leaders practice an "open book" approach to compensation? While some firms swear by this open book policy ("show everything to everyone"), it can invite problems. Only the person on the top of the heap will feel satisfied. Even if all the others feel that they were fairly treated—which is the goal—they still may feel unhappy about their relative status. So, we recommend a fair and clear process that doesn't invite comparisons.

The ultimate test of whether or not the compensation system is working is simply whether or not it encourages the full range of behaviors needed for the firm's success. A good compensation system encourages alignment of the individual, group, and firm interests.

### Ownership

Top firms have learned that the old notion of command and control has given way to the participatory form of management. Everyone in the firm is encouraged to take ownership in the results. Patrick O'Donnell says, "We try to create a common sense of ownership in the department by having analysts supervise each other, by having analysts train each other, and by getting analysts involved in a wide variety of other things that would normally be thought of as governance."<sup>24</sup> Alison Winter at Northern Trust expresses a similar attitude towards promoting a sense of ownership, "We want to promote a proactive interchange of ideas and open-mindedness by encouraging portfolio managers to share successful ideas and talk about what they are doing. We want to promote a "shared destiny" concept among our portfolio managers and increase their ownership in the success of the organization and in our collective performance, not individual performance."<sup>25</sup> When we asked Winter what she was most proud of as a leader, she said it was the way her team had hung together during the tough markets at the turn of the century. "Rather than turning on one another or blaming each other, they supported one another. It was truly inspiring, but not surprising. We've worked so hard at instilling the team mentality."<sup>26</sup>

The strategies for spreading ownership through the firm are many, but the principle is the same: the deeper and wider the ownership, the better. For this reason, as we conducted our research, we were most impressed with firms like Turner Investments because the receptionist who met us and took our coats was an owner in the firm. That's deep and wide ownership.

Ownership is critical to preserving culture. I asked Glenn Carlson, co-CEO at Brandes, to give me the strongest argument that culture was crucial to their success. He responded immediately, "We haven't sold the firm." He continued, "If we sold the firm to some large global company, they would most likely screw up what we have created here." Research supports Carlson's claim. Tillinghast-Towers Perrin performed a survey of Forbes 500 CEO's and asked them to define the biggest pitfalls to successful mergers.

Here were their responses:



<i>Rank</i>	<i>Pitfalls in Mergers &amp; Acquisitions</i>
1	Incompatible cultures
2	Inability to manage target
3	Unable to implement change
4	Synergy non-existent or overestimated
5	Did not anticipate foreseeable events
6	Clash of management style/egos
7	Acquirer paid too much
8	Acquired firm too unhealthy
9	Need to spin off or liquidate too much
10	Incompatible marketing systems

Right at the top of the list is “incompatible cultures.” Carlson and his senior leaders are reluctant to cash out because it would destroy the gem that they have created.

**aFFiliated Managers Group: a strategy For eFFective ownership**

Peggy Eisen, Chair of the Institute for Financial Markets, describes a common problem with ownership in the investment business:

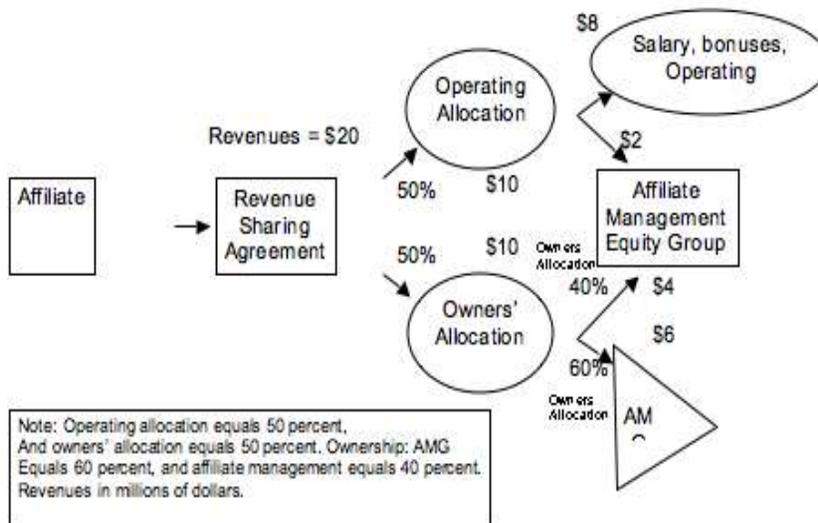
“Here’s the all too common scenario. Two to three guys found a firm and among themselves own 80%. The firm becomes very successful and they give ownership to a few employees. Then the founders reach age 55 or so. One decides he wants a lifestyle change and another wants out altogether. So they look at the other folks in the firm and decide they can’t pay them what they think the firm is worth because they own so much. They then have to find a transaction which becomes the transition of both ownership and leadership. But wait, the problem becomes twofold: 1) the ownership was not widespread enough, and 2) no one was groomed for succession. So of course the transaction screws everything up! Believe me, I saw this scenario more than once!”<sup>27</sup>

Bill Nutt at AMG has addressed this very problem. He has built a successful business through his understanding of how ownership supports culture. Recognizing the thorny issues surrounding firm ownership, Nutt has devised a strategy for buying controlling interest in mid-size asset management companies, thereby providing a partial buy-out for the owners, while maintaining a “hands-off” policy towards their investment operation. The result for the 17 firms that comprise AMG is that they can spread the ownership of their firm, plan for succession, and maintain precisely the culture that has created the initial success. Nutt is interested in long-term success records and especially in firms that “have been through terrible times and stuck together.”<sup>28</sup>

The diagram below shows the AMG investment structure:



## AMG structure



A clear sign of Nutt’s belief in the importance of culture is his statement that the “big brokerage houses will never be successful over the long term because they don’t have clear cultures.”<sup>29</sup> Nutt believes that culture is the key to future growth because human capital is most vital asset.

How have the 17 AMG firms faired? We find this another interesting piece of evidence supporting the success of strong culture firms. Nutt selects his acquisitions on the basis of many of the criteria that we’ve discussed: clear vision and values, well-articulated investment philosophy, long-standing tenure of the investment team, etc. Dropping AMG into the framework that we showed in Chapter One gives the following table for five year investment returns:

	Portfolio of Top 5 Investment firms	Portfolio of 8 other Investment Firms	AMG
Total return	49.8%	20.7%	70.0%

### batterymarch: bucking the trend

In the interest of full disclosure, we can report on one investment legend who sees ownership very differently. In our research on ownership, Dean LeBaron’s name kept surfacing as someone unwilling to let go of the reins of control. We went right to the source and asked LeBaron why he chose that approach to ownership. His response:

“Yes, I owned 100% not to be greedy (I hope) but to see that we could explore deviant investment strategies (more risky to the manager’s business than the investor...like buying cos.



priced for bankruptcy), to reduce to zero a tendency to spend a lot of time of business policy issues to which business school graduates are prone and to maintain a climate of change and insecurity that is essential for a change organization (edge of chaos).’

“To put it another way, the problem of self-organization is usually more one of implementation rather than acceptance of the theory. Visualize a boundary case of a company that has been driven close to collapse by a dominant and wrong leader. If you go to the board of directors or bankers of that company and say, ‘I have a new solution. Let’s allow the co. to be run by its emergent knowledge. Of course, I can’t tell you what the outcome will be or the cost or the time schedule but it will all get worked out.’

“You are unlikely to be hired as a consultant to put in such a practice although privately each of the directors might think it is a good suggestion.’

“Why won’t you be hired? Because this plan does not give the level of assurance promised by directed strategies, even when the chances are that the strategies are wrong.’

“My company, Batterymarch, could be different because it had a benign dictator (me) who never had a business plan, never a budget, induced change by moving people’s locations regularly, never gave anyone security (but did give very large compensation)....and everyone individually hated it but agreed that it was the best collective strategy.’

“Fortunately I did not have to answer to anyone and could allow the company to run according to these principles. When I sold the company, the people who took over changed back to a standard organization chart with titles, planning meetings and all the stuff.’

“The individual human brain seems to strive for the pretense of certainty when the systems of existence are almost emergent. People drive away from the edge of chaos since it is uncomfortable. I was lucky enough to be able to hold people there where they could thrive...but they hated it.”<sup>30</sup>

**aronson+Johnson+Ortiz, Ip: deep and wide ownership**

LeBaron’s creativity aside, the more traditional approach to spreading ownership is seen at AJO, founded by Ted Aronson. As a way of spreading the “psychic ownership” of the company, Aronson changed the name of the company from simply “Aronson+Partners” to include his two colleagues. (He tells us that the most fun part of that change was that he surprised them with it.) The financial ownership did not change: Aronson owns 60%, Johnson and Ortiz 15% each, three partners with 3% each, and one with 1%. Currently there are seven partners in the firm, but in theory all twenty seven employees can become a partner. The same is true with stock ownership. In the near future, new ownership would come out of Aronson’s 60% share, in the future it would be pro-rata from the partners.



This arrangement seems to be working well for AJO. Unlike the comment above by LeBaron (“they hated it.”), employees at AJO love the environment, which is evidenced by the fact that no one leaves. And performance is stunning as seen earlier in the book.

Of course, the larger a private firm is, the harder it is to spread the ownership. William Blair & Company is interesting in this respect; it is truly a “mid-sized” investment firm that covers all five “buckets:” investment banking, asset management, equity research, institutional and private brokerage, and private capital. With 795 employees, they are much larger than an AJO or a Turner, but they have still worked towards broad and deep ownership. Fully 167 employees are principals in the firm.

#### Summary

Compensation and ownership are integral aspects of a firm’s culture. Good leaders take the time and effort to forge consensus around key questions like, “What is our compensation philosophy?” and “How do we define and manage ownership?” The benefit of getting everyone on the same page for these issues is seen in higher morale and increased effectiveness. In turn, top professionals will be less likely to leave. Reduced turnover provides a steady pool of resources from which to pick new leaders. This is the subject of our next chapter. 

	<i>Test Yourself</i>	<i>Yes</i>	<i>No</i>
1.	Do you have evidence that your staff has a solid understanding of your compensation structure?		
2.	Do your compensation and bonus discussions go smoothly overall?		
3.	When people leave your firm, do you know why?		
4.	Have you attended to the top-rated factors for professional satisfaction?		
5.	Do you have specific opportunities for shared ownership in your firm?		
6.	What are your next steps regarding compensation and ownership?		



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- <sup>21</sup> David H. Maister, *Managing the Professional Service Firm*, (Simon and Schuster, New York, 1993), p. 259
- <sup>22</sup> *ibid*, p. 261
- <sup>23</sup> *ibid.*, p. 261
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<sup>25</sup> Alison A. Winter, “Managing Investment Professionals Who Deal with Individual Client Accounts,” from *Managing Investment Firms: People and Culture*, (AIMR Proceedings, Charlottesville, VA, 1996), p. 60

<sup>25</sup> Alison Winter, interview on February 11, 2001

<sup>26</sup> Margaret Eisen, letter on March 21, 2003

<sup>27</sup> Bill Nutt, interview on October 17, 2002

<sup>28</sup> *ibid*

<sup>29</sup> Dean LeBaron, email on March 28, 2003

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