Does a Culture of Blame Predict Poor Performance for Asset Managers?

Jason Hsu, Ph.D.
Research Affiliates, LLC
UCLA Anderson School of Management

Jim Ware, CFA
Chuck Heisinger
Focus Consulting Group

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Abstract

Culture Matters

Increasingly, the investment industry is waking up to the important link between firm culture and firm success. According to Focus Consulting Group, which conducts regular corporate culture surveys on nearly 70 investment organizations and advises firms on culture and leadership, over 95% of investment professionals surveyed agree that culture is important to success.[1] This supports Charles Ellis's famous assertion that, when it comes to the success for investment organizations, "in the long run, culture dominates."[2]

In many ways, this acknowledgement that culture influences performance parallels a similar development in other business fields. According to the 2013 survey conducted by the Katzenbach Center at Booz & Company, 84% of the 2,200 executives and employees surveyed from various industries report that "culture is critically important to success" and 60% believe that "culture is more important to success than strategy and business model".[3] Lyons, Chatman and Joyce (2007) find that culture influences innovation and client service meaningfully. Kets de Vries, Guillen and Korotov (2011) argue that a dysfunctional corporate culture and a lack of senior level self-awareness on how leaders contribute to the dysfunction impede organizational renewal, even when change is necessary for the survival of the firm. This contributes to the high failure rate for change initiatives observed in Beer and Nohria (2000) as well as for M&A's for firms with conflicting culture (Camerer and Weber (2001)). Killingsworth (2012), reviewing evidences from the legal ethics literature, argue that corporate culture has greater influence on ethical behaviors and legal compliance than does explicit rules and policies.

Culture, of course, can sound vague and touchy-feely. Few people would argue against the benefit of having "good" and "strong" corporate culture. Without some concise definitions, the conversation can feel devoid of meaningful details and actionable insights. In this article, we adopt two standard operational definitions of culture.[4] 1. Culture as a manifest pattern of cross individual behavioral consistency (CIBC), or the consistent way in which employees perform tasks, solve problems, resolve conflicts, treat customers, and treat colleagues. 2. Culture as a set

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[1] FCG real-time voting responses from audiences at conferences, client meetings, and advisory board sessions.

[2] See Capital: The Story of Long-Term Investment Excellence by Charles Ellis, a prolific investment author and researcher, who founded Greenwich Associates, which is one of the most revered research and consulting firms in the investment industry.

[3] Aguirre, von Post and Alpern (2013) Booz and Co. Perspective. http://www.booz.com/global/home/what-we-think/reports-white-papers/article-display/cultures-role-organizational-change#prettyPhoto[iframes]/0/

[4] Our definitions are adopted from the Web Encyclopedia provided by the University of Rhodes Island's Schmidt Labor Research Center. http://www.uri.edu/research/lrc/scholl/webnotes/Culture.htm.

of informal values, norms and beliefs creating CIBC. Both of these definitions are useful for understanding the survey responses and the empirical results of our study. With clear definitions, we can now answer what we mean by a "strong" corporate culture. In our context, it means strong consistency—that is most employees can clearly articulate "how we do things around here" and the observed cross individual behavioral consistency is strong. A "good" corporate culture is defined as beliefs and CIBC, which are conducive toward delivering on the firm's stated objectives. For example, a firm could actually have a strong culture of cut-throat backstabbing competitiveness. And, in some unique circumstances, that culture could actually be effective (good) at attracting talent and creating financial success.

A Culture of Blame

What we are interested in for this study is to specifically examine blame as a culture behavior (or CIBC) and explore the culture beliefs, which drive it, as well as other culture beliefs and behaviors it might induce. Ultimately, we are most interested in identifying linkage to firm-level outcomes, which matter to owners/shareholders, current and prospective employees and clients. What we uncovered should surprise no one. Using a unique dataset collected by Focus Consulting Group, which covers 68 investment management firms and 3,435 confidential respondents, we find that blame drives defensiveness and reduces collaboration, openness and learning in the corporate culture. This then results in poor operating performance, poor employee engagement and poor client experience. Unfortunately, we do not have data, which would allow us to make explicit statements regarding the impact of blame on long-term investment performance. We do, however, use various results from the survey data as well as interviews with CEOs and CIOs to argue that blame probably has a significant negative impact to long-term investment outcome.

Our specific interest in studying blame in culture is motivated by a number of research efforts that came before us. First of all, Dethmer, Chapman and Klemp (2013) argue that blame is one of the powerful human motivators and is often the go-to tool for individuals in a position of power. It begs the question whether blame, despite its negative connotation, might actually be an effective tool for creating (short-term?) firm success and if it creates unintended collateral damage. Additionally, in an experimental study, Gurdal, Miller and Rustichini (2013) find that people regularly assign blame to others for what amounts to flipping "heads" in a game of coin toss. This tendency intensifies when there is a meaningful stake attached to the random outcome. In the investment management business, it is well understood that short-term results are largely random. However, it is also well documented that asset owners tend to fire investment managers after a fairly short period (usually three years for institutional assets) of underperformance.[5] The loss of assets will reduce profits, which would compound the loss of performance-based fee income. All of which reduces the profits to owners/shareholders and bonus to executives and staff. It is natural to suspect that, within an investment management organization, which adopts a culture of blame, "unjustifiable" blame would be readily assigned in response to random short-term underperformance. The pertinent question is whether these firms might be less successful in some measurable way? Perhaps, blame is merely undesirable for the rank-and-files, but is an effective management tool for generating investment success for clients and profits for owners?

The literature on managing the modern day knowledge worker consistently emphasizes establishing an environment that fosters personal accountability, creativity and learning.[6] The psychology literature amply demonstrates the linkage between blame and fear, which then drives defensiveness. Neuroscience research finds that fear shuts down the part of the brain responsible for creative problem solving, while organizational behavior studies find that defensiveness inhibits high level learning and accountability.[7] Summarizing twenty-two prior studies in a meta-study, Tennen and Affleck (1990) find that "*blaming is ineffective at best, and more likely to be harmful.*" All of this points to the likelihood that a culture of blame could have significant negative impact on the effectiveness of the research analysts and portfolio managers at an investment organization, which then would translate into poor long-term performance. Indeed, it appears that the capital market at large already assumes a linkage between firm performance and a culture of blame; Lee and Peterson (2004) using event study around earning misses find that the stock prices of companies, who owned their mistakes had less negative price "punishment" than those organizations that blamed external factors.

Should Corporate Culture be a Factor in Investment Manager Selection?

The investment industry spends enormous resources to identify managers who can outperform consistently. There is a rich body of academic and practitioner literature exploring different

[5] See Goyal and Wahal (2008) and Penfold (2012).
[6] See Daniel Pink (2007), Drive.
[7] See Coleman (1995), Emotional Intelligence (New York: Bantam) for a comprehensive treatment.

manager selection criteria. Ironically, perhaps, most researchers have given up on the hope that past positive alpha can predict future outperformance with any reliability.[8] Academic papers have moved on to consider portfolio manager attributes, such as tenure, the CFA designation, advanced degrees, and even SAT scores; they have also examined fund characteristics, such as portfolio turnover, expense ratios, and assets under management. However, many econometricians, asset owners and investment consultants confess that effective methods for picking winning managers remain elusive.[9]

To be perfectly fair to the literature, while identifying consistent top quartile managers remains difficult, we do know quite a bit about the predictors of consistent poor results. And perhaps, avoiding the bad managers—winning Charles Ellis's "Loser's Game" is the best that we can do. Anecdotes suggest that practitioners, especially investment consultants, have found elements such as high turnover and deficiencies in investment philosophy, compensation scheme, ownership structure and succession planning hurt long-term investment results.[10] Both finance academics and investment consultants continue to work hard on identifying quantitative and qualitative attributes which might, at least, predict underperformance.

Perhaps assessing the corporate culture of investment management firms would give us additional insights in our manager selection. If, indeed, quantifiable culture behaviors like blame and defensiveness drive counterproductive behaviors in investment professionals; if a culture attitude that assigns blame and (unjustified) accountability for short-term random underperformance pervades and dictate decision making and compensation; then there is much reason to believe that the investment organization is unlikely to deliver long-term outperformance.[11] [12]

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[8] Paradoxically, many asset managers continue to be hired and fired based on recent three-year performance, despite all evidence pointing to the harm of such a practice. See Towers Watson's (2011).

[9] A large Middle Eastern sovereign wealth fund famously proclaimed, "We are convinced that managers who can consistently deliver alpha exist. We are, however, also convinced that we do not know how to find them."

[10] High portfolio turnover, high expense ratios, and low active weights (Cremers and Petajisto, 2009; Sebastian, 2013) are quantifiable metrics that tend to predict underperformance in the long run.

[11] Most academics are bewildered by the existence of year-end and quarter-end window dressing of portfolios—it seems too absurd to believe that such return detracting behavior could persist in the investment industry, where delivering alpha is the only thing that supposedly matters. But to practitioners, buying popular winners at high prices and selling the cheap beleaguered loser are as natural as can be when one has to deal with reproachful board members or client account managers, who when Apple is trading at $700 a share question why the portfolio manager did not buy the stock, "everyone knows that Apple will take over the world." And when Apple craters to $400 a share, they would just as quickly proclaim, "Any fool knows the company is only half its former self without Steve Jobs."

Blame in Culture and Its Linkage to Firm Stakeholder Success

A Cross-sectional Empirical Study

We are, of course, not singularly interested in understanding whether a culture of blame would play a role in predicting investment performance. Admittedly, our data are unable to predict manager alpha directly. We are also interested in its implication on other dimensions of stakeholder success, such as profits to owners/shareholders (which has significant impact on organizational resourcing and stability), employee happiness and client servicing quality, all of which play meaningful parts in the modern day manager selection process. Not to skirt the obvious, the analysis would also (1) inform owners/shareholders on how to potentially improve profits and (2) advise current and prospective employees on employment choices.

In our study we use a propriety database provided by Focus Consulting Group (FCG), which has been collecting data on corporate culture and firm performance on investment management firms for over a decade. As far as we know, this is the only data of its kind, in terms of the number of firms covered, the depth of the data as well as the length of time that the firms have been tracked. We are also given access to free responses from the firms' annual culture survey as well as opportunities to interview senior executives at the firms included in the sample. The high quality database allows us to rigorously measure the "strength" of blame in the corporate culture and then correlate that to a variety of measurable firm attributes and outcomes, including self-reported scores on loyalty to the firm, firm attractiveness to outside talent, success relative to other firms, etc. For every firm, the firm-level score is aggregated from confidential responses from the individual professionals working there. Generally, the response rates are around 90%. We do not detect any obvious bias in the individuals' scoring of own firm. We also have no reason to believe that respondents are incentivized to manipulate the survey; the results are 100% confidential—complete individual anonymity within the firm and complete firm anonymity externally. There are no obvious benefits or harm to the firm for scoring high or low along the various culture and firm attributes. We describe the FCG data collection methodology as well as the data items available in its database in **Appendix A**.

[12] Similarly, cases studies have questioned why pension funds and portfolio managers do not rebalance into risk assets after large price declines, given the documented long-term price mean-reversion pattern (Ang and Kjaer, 2011). Most practitioners would readily acknowledge that the driver of this behavior is based in organizational politics rather than investment conviction. In 2009, the, arguably, *ex ante* sensible investment decision to rebalance into financial stocks and high yield bonds simply carried too much risk of *ex post* blame.

In addition to some of the raw FCG data items that we use as dependent variables in the cross-sectional study, we also construct proxy variables by combining various data items. Specifically, we combine firm level attribute scores on accountability, creativity, collaboration, continuous improvement, etc. to form a predictive variable for Long-term Operational Performance. In total we create three proxy variables to measure the firm's likely long-term operational performance, client experience and employee engagement. We describe how each proxy variable is constructed in detail in **Appendix B**. The raw FCG data items are either objective firm characteristic such as headcounts, # of respondents and assets or subjective employee assessments on existing firm attributes such as openness, defensiveness and risk-taking attitude; the proxy variables constructed are meant to assess firm outcome based on a combination of its reported attributes, which are believed to be meaningful drivers of that particular outcome.

In the current study, we examine the cross-sectional relationship between the "strength" of the blame culture for a firm and the firm's various attributes and outcomes. We report the cross-sectional regression in **Table 1**. We use the weighted least square (WLS) approach to adjust for the difference in the number of respondents for each firm; we note that the OLS results are entirely similar.

Table 1. Cross-sectional Regression: Firm Attributes/Outcomes on Blame

Regression	Dep	Indep (X1)	X1 t_stat	Adj R^2
#1	Defensiveness	Blame	6.65	0.39
#2	Loyalty	Blame*	-11.08	0.64
#3	Success	Blame*	-4.35	0.21
#4	Attract Talent	Blame*	-5.09	0.27
#5	Owner Mentality	Blame*	-8.23	0.49
#6	Oper. Perf	Blame*	-9.74	0.58
#7	Client Exp.	Blame*	-5.98	0.34
#8	Empl Engagement	Blame*	-9.91	0.58

First of all, we find that firms with high blame tend to also have high defensiveness. An adjusted R^2 of 0.39 suggest a correlation that is nearly 65%. A t-stat of 6.65 indicates that the relationship is significant with 99.9% confidence. This result is unsurprising and substantiates results found in other studies using non-investment management firms. For regressions 2~8, we use a composite blame score (Blame*), which is constructed from combining the blame and defensiveness score. The inclusion of "defensiveness" is motivated by findings, which argue that people in position of power, who may be responsible for much of the blaming, may not be sufficiently self-aware enough to notice blame; instead they notice that they are surrounded by very defensive people.

Regressions 2~8 report that high blame in the corporate culture is highly correlated with low employee loyalty, low firm success, low ability to attract talent, low owner mentality in employees, low long-term operational performance, poor client experience and low employee engagement. In short, a culture of blame appears to be associated with some very undesirable firm attributes and outcomes. However, correlation is not causality.[13] A reasonable competing hypothesis is that poor firm success is actually the true driver of all ills; blame is just a correlated outcome, which, by itself, has no impact, when controlling for "firm success". Arguably, if the firm were doing better (i.e. profits were higher, performance was better, etc.) there would be less blaming and there would also be more employee loyalty, higher ability to attract talent, etc. To address this question, we perform a multi-factor WLS, introducing firm "success" as a second independent variable alongside "blame". We report the results for these regressions in **Table 2**.

Table 2. Cross-sectional Regression: Firm Attributes/Outcomes on Blame and Success

Regression	Dep	Indep (X1)	Indep (X2)	X1 t_stat	X2 t_stat	Adj R^2
#1	Defensiveness	Blame	Success	5.55	-3.36	0.47
#2	Loyalty	Blame*	Success	-8.94	3.87	0.70
#3	Success	Blame*		-4.35		0.21
#4	Attract Talent	Blame*	Success	-2.60	6.65	0.55
#5	Owner Mentality	Blame*	Success	-6.21	3.14	0.55
#6	Oper. Perf	Blame*	Success	-7.73	2.36	0.60
#7	Client Exp.	Blame*	Success	-4.48	1.83	0.36
#8	Empl Engagement	Blame*	Success	-8.38	0.74	0.59

[13] Charley Ellis commented on this: "While 'correlation is not casualty' rings true, but poor performance would be expected to magnify "blaming" in a firm inclined to negativity." And we would agree.

Table 2 shows that firm "success" does contribute to more positive assessments from the employees for every attributes examined. This is not surprising; success masks a lot of problems, as the old saying goes. However, what is interesting is just how little that seems to matter. While the t-stats for the "success" variable is significant for all five of the seven regressions, the improvement in the explanatory power (adjusted R^2) is surprisingly marginal. The fact that the t-stats for "blame" remains just as high as in the univariate regression and that the adjusted R^2 improves very marginally for most regressions when "success" is included as a second variable rejects the hypothesis that blame might just be capturing the effect of poor firm success (potentially due to bad performance) but has no added explanatory power. In fact the result almost suggests the opposite—that success doesn't appear to generate enough organizational endorphin to overcome the toxic effect of the blame culture in general.[14]

Specifically, success appears potentially effective in offsetting the blame culture only when it comes to attracting talent. This is unsurprising as highly successful firm is also likely to be able to offer a larger compensation package, which is still considered the most important driver for employment decisions for many job seekers. However, current success and the potential financial largess do not seem to be as positively impactful for existing employees. When it comes to long-term operational performance, employee engagement and client experience, current firm success is nearly immaterial in predicting positive impact to these desired stakeholder outcomes.

Case Studies and Follow-up Interviews

FCG computes for the firms in its survey database a composite score, which allows for firm ranking. Using this ranking information, we are able identify high performance organizations (HPO) for case studies, to complement the quantitative analysis. For tractability as well as participant willingness to be cited in a published study, only a few organizations are included for follow up interviews. Generally, our selected HPOs have high self-reported score for success relative to other investment firms. They also have some of the highest scores in firm attributes that are related with long-term stakeholder successes. In this section, we include short synopses

[14] In interview with FCG executives, they report having clients who had experienced performance success and financial success but had very blame oriented cultures, suggesting that success is not the panacea for toxic cultures. Typically, the success for these clients is not sustained. In each case, the toxic firms lost valuable talent, which then led to mediocre future performance.

on interviews with these firms' senior leaders. The senior leaders are asked about the linkage between their culture and firm performance, with a particular emphasis on the blame element. Understandably, low performing firms are less interested in being interviewed and have their culture dysfunctions analyzed for public consumption.

Frank Hart (President, Greystone Managed Investments): "The Greystone culture is: recognize your error, learn from it and do better next time. We encourage honesty. We don't punish people for errors. That's how we got to where we are. If there is a culture to blame, that will be the dominant thing in the culture. If people see others getting blamed when mistakes are made, then they'll do the same, and it will become acceptable. It probably won't as effectively lead to [improvements]. Everybody makes mistakes. The challenge is, how do you avoid making them a second or third time? We learn a lot by looking at what went wrong as opposed to who did what wrong. Then we fix the processes so it doesn't happen again. Blame is a dangerous path because it leads to more destructive behavior as opposed to more constructive behavior. Blame creates a vicious downward cycle, whereas learning creates a virtuous upward cycle."

Michael Mezei (President, Mawer Investment): "[When examining mistakes], stay away from "who" questions and focus on "what" questions. As soon as you go down the "who was involved" then immediately [you are] trying to figure out how many people were involved and what percentage to blame for each person. From a practical standpoint, if an error has happened, [we are] very focused on *what* happened, *what* steps are taken to remediate it and *what* learnings are we going to apply – *what* are we going to do differently and *what* process are we going to change for next time."

Fred Martin (President and CIO of Disciplined Growth Investors): "I think if the head of a firm wants to measure the blame factor he needs to look in the mirror. If he's engaged in blame then his firm will be engaged in blame. It starts at the top. The top person has to follow the suggestions of being open, curious and accountable. It's incumbent on the head person. We buy aggressive stocks, and we have a practice of forgetting the mistakes. Discuss and then let them go. I know my guys are smart. If I beat them up on their mistakes – and we don't win on all our stocks – they would slowly buy less controversial stocks and it would hurt our long term numbers. We actively practice forgiving mistakes; just letting go. That is something that really helps us."

Donna Merchant (Head of HR at American Beacon): "[You have] to negate blame to have that entrepreneurial spirit to step out on the line in order to achieve more. With risk comes reward. We have to foster a culture where our people are not afraid to think outside of the box and try something new."

Paul Gerla (CEO of Kempen Capital): "When you grow the way we have grown, and you get more complexity, [you really need to] spend the time to be open and curious, to celebrate successes but, also when failures come, to foster continual improvement rather than blaming. When we have these moments, where we are very defensive, we say, 'Hey, listen, I think we should become open and curious again [instead of blaming and being defensive].' It really helps to have this knowledge [on the dynamics between blame and learning]."

In addition to these comments from leaders of high performing investment firms, we also studied the FCG database of interview transcripts as well as free responses from the low performing firms. This allows us to study blame using qualitative data as well. The common themes in blame-oriented cultures are fear and low morale. We provide a few anonymous quotes from professionals at these blame-oriented firms.[15] First, we focus on responses, which touch on leadership and how it contributes to the blame culture. The revealing statements paint a picture of low self-awareness amongst the leadership rank, which contrast against the interviews with the leaders from the high performing organizations.

Anonymous response #1: "The company's culture is in crisis and will require substantial changes. It needs to begin at the level of the CEO. [It] is common for the CEO to argue against research analysts in meetings, often resulting in somewhat of a public berating. This tends to generate animosity, discourage any open dialogue from occurring and inherently puts each

[15] We edit the negative comments more aggressively. Some comments are combined from various responses by the same person to related questions. Exposition and specific references are sometimes edited for brevity and confidentiality.

analyst into defensiveness at meetings. Research analysts have asked about the CEO's mood prior to meeting with him in order to prepare mentally, which is a clear red flag […] There is general consensus that the firm does not present competitive opportunities relative to the marketplace; most individuals in research would leave if given a reasonable opportunity."

Anonymous response #2: "As far as the senior team goes, most are unapproachable and [when they do get involved as issues arise], they are [blame-oriented]. Instead of building up individuals and teams, there seems to be a process of knocking them down. This has been going on for quite some time. As far as initiative & risk taking, I believe most employees are happy to just sit in their cubicles [and duck their heads]. Though, in the past, I never would have thought of leaving, it has come into my mind more recently […] Loyalty, firm wide has deteriorated.

Anonymous response #3: [The firm has] actually two cultures: employees and management (mostly portfolio managers). PMs take credit when things go well and blame analysts when things go wrong. [As a result], there is little "collaboration" between PMs and analysts. PM used to be flat out hostile toward the employees, but recent defections have caused them to bite their lips. Very few people are happy here.

The following responses provide additional insights on how blame might create disengagement in the professionals as well as other workplace dysfunctions.

Anonymous response #4: "The culture here is very blame-oriented. And after a while, there is a learned helplessness that sets in with people. At my prior job—a hedge fund—the environment was demanding but fair. I felt like I was performing at about 90% of my effectiveness. Here I am at 30%, tops. I will leave for another job as soon as an opportunity arises."[16]

Anonymous response #5: The regular assignment of blame when things go wrong has led to an environment, where many employees operate in fear of making mistakes. Employees are encouraged to "throw each other under the bus" in order to make us collectively better and more efficient, a management style that is effective in some ways, but which fosters resentment and

[16] This person actually left soon after the interview, with NO job prospect.

paranoia. Employees regularly disparage other employees—even at the very highest levels. [This seems to create] a great deal of territoriality especially at the highest levels: a "my group is better/smarter/more important” than your group mentality. Minimal interaction between groups tends to limit cohesiveness. Morale is generally low.

__Anonymous response #6:__ “There is a lot of gossip around office and everyone is quick to assign blame instead of pitching in to help each other. It feels like everyone is always trying to uncover someone else's wrongdoing or mistake instead of just doing their work. No training or mentoring, [instead wasting time] tracking why someone was out due to bereavement, etc. […] hard to stay motivated.

__Anonymous response #7:__ I feel the culture at [the firm] encourages the fear of blame. I feel that people are afraid to be found having made a mistake. No one wants to make a mistake. Instead of using [mistakes] to improve processes and procedures, they simply are black marks on a person. I don't feel that employees feel secure in our positions. We feel vulnerable all the time.

In the following responses, we get a glimpse into the experience of potentially “unjustified” blaming for short-term noise. One can imagine the drama and wasted energy in these frequent performance “witch-hunt” meetings, which are unlikely to foster creative thinking, learning or true personal accountability.

__Anonymous response #8:__ “While we claim to stand to for long term performance, our PMs are constantly asking about quarterly performance. Sometimes I will get an email the day before an [earnings announcement] asking what I expect for earnings and whether we should trade the stock. If earnings do surprise and the stock trades up or down, I get blamed for not being *on top of it*.”

__Anonymous response #9:__ “This culture is toxic. When [portfolio managers] have success, it is all due to their brilliance. When they underperform, we analysts get blamed. It even extends to not owning the better stocks. We [constantly] get drilled in our *weekly* meetings about why we don’t own a name that is up 20%.”

Anonymous response #10: We have a culture of fear and distrust. There lacks genuine respect for the people and for their intellect. [Instead], the idea that *you are only as good as your last call* is prevalent. The comp structure, which rewards short-term outcome [and ignores true long term contribution], seems to support an unhealthy competition amongst peers and encourage bad-mouthing peers. The investment leadership seems to always be at odds with one another, which makes decisions contentious [with a lot of second guessing].

We include more interview responses from the FCG database in **Appendix C**. While anonymity and confidentiality prevent us from more substantial discussion regarding firms with high blame culture, it is nonetheless important to acknowledge that only 12% of the firms in the sample would be classified as having strong healthy culture, while a very meaningful portion of the firms in the database would be classified as having meaningful culture dysfunction, including a strong presence of blame.

Discussion

In many ways, the empirical finding that blame is strongly associated with a variety of undesirable firm attributes and can be predictive of poor stakeholder outcomes for investment organizations are unsurprising. What we have learned from leaders from select high performing investment organizations are also uncontroversial—that blame inhibits honesty, learning, risk-taking and the willingness to improve. Case studies and survey results from other fields find similar results. Nonetheless, in an industry that is characteristically rational and intellectual and extremely data driven, it is valuable to provide empirical analyses and data that demonstrate the importance of the "soft" and "emotional" elements on performance, whether in investing or other aspects of the firm's operation.

Both in the data as well as from the interview, we find that blame increases "defensiveness" and "fear". When blaming is condoned or when senior leaders are observed to lead with blame, it also spurs imitation as others assume "self-righteousness" in faulting another and demanding punishment all in the pretense of organizational accountability. When blame and the associated culture element of fear, defensiveness and righteousness are dominant in firms, we find self-reported scores on personal accountability, creativity and learning in organizations to be substantially below the cross-sectional average.

Indeed, one could imagine that in an investment organization with a strong blame culture, people could take joy in second-guessing investment decisions after poor short-term performance. Whether it is the board blaming the investment staff at a pension fund, or the client facing team blaming the portfolio management group at an asset management firm, the logical moves for the investment professionals, in this environment, are either to get defensive and deflect blame onto others or to proactively hide poor results. They are unlikely to display personal accountability and proactively identify problems, where they play a part. Instead, some could be much more interested in pointing fingers with righteousness and hindsight, which creates a "Gotcha" environment filled with fear and paranoia. Equally, anecdotal evidence finds that when blame is high, people can often be unwilling to speak out about problems, because they don't want to "get other people in trouble" or be viewed as "grinding an axe". It is difficult to imagine long-term investment success from an organization steeped in blame. On this point, Charley Ellis comments: "Agree! Investment management depends on communicating 'soft shelled' ideas when the conventional data is in opposition. Such communication depends on trust and careful listening – as described in **Capital** – which gets shut down by blaming.

On the other hand, we could believe that superior long-term investment results might arise with higher probability from organizations, which (1) do not create fear around identified problems, (2) debate problems with openness and without blame, (3) emphasize fixing problems, and (4) focus on learning to avoid similar mistakes in the future. It then bears asking, why in an industry that is so smart and rational and so focused on long-term investment success, a blame culture could persist to the detriment of firm success? Why might organizations filled with intellectuals and avid learners often also create a culture that shuts down learning while encouraging defensiveness? From analyzing the interviews and the qualitative responses, we do not find evidence that senior leaders set out to create a culture of blame. What appears to be a driver of the blame culture, in some instances, is actually a bungled attempt to create more accountability. In the struggle to practice accountability—which, by all accounts seems to be a good thing—many firms default to the age-old formula: find out who messed up and blame them as quickly as possible. In the words of one CEO, "A public hanging is a good thing now and then." Additionally, research finds that the highly intelligent and competitive people often have the greatest "need to be right".[17] Organizations, plagued with fault-finding, probably value "being right" as more important than "learning", subconsciously. Indeed, perhaps we blame others precisely to satisfy the ego's need to be right. When investment professionals debate in order to prove themselves right and others wrong, it reduces the possibility for learning and so the possibility for improvement. When research analysts and portfolio managers focus on appearing to have the truth, they are also implicitly committed not to see both sides of the issue but merely to look for confirming evidence.

If we could conclude, based on the empirical study and interviews with high performing organizations, that blame has a negative impact on the performance of investment organization, we might further argue that unjustified blame is particularly counterproductive. The investment management industry is one where the short-term investment results experienced by clients provide little or no information on the true quality of the product. Given the dearth of actionable information contained in short-term performance, it has been mind-boggling to researchers why so much acclaim and blame can be apportioned on the basis of short-term performance.

Gurdal, Miller and Rustichini (2013) find that individuals are prone to display that seemingly irrational behavior; in laboratory experiments, subjects routinely reward and punish others for successes in games of chance. Perhaps, leaders in the investment industry are simply human and therefore driven by the average human tendencies.[18] From the qualitative responses, we do observe that low performing firms with high blame, professionals complain about the focus on and the "unfair" accountability dispensed for short-term underperformance. When the organizational sport is blame, perhaps it hardly matters that the assignment of fault is based on a metric with no actual informational content (like short-term performance). However, a culture of blame in an environment where outcomes are random might engender some perverse behaviors. A potential consequence is that firms might spend resources on developing skills to improve the odds of flipping heads on a fair coin. Prolonged exposure to this arguably irrational resourcing strategy may ultimately reduce a firm's senior management and research team to be filled by people with poor comprehension of the investment science and its most basic statistics. Again, this hardly seems like a recipe for creating long-term investment success.

[17] See Ware, Jim, Jim Dethmer, Jamie Ziegler, and Fran Skinner. 2006. High Performing Investment Teams: How to Achieve Best Practices of Top Firms and Argyris "teaching Smart People how to Learn"
[18] Charley Ellis comments: "The investment industry does appear to be rational and intellectual, but we are all human and, under pressure, emotions often dominate."

Conclusion

Our empirical analyses using quantitative and qualitative firm data find that blame is toxic to the success of investment organizations. Whether blame is a failed attempt at driving more accountability or an ego-validation exercise that makes others wrong in order to experience "being right", it is observed to largely produce fear, defensiveness and low morale, amongst other undesirable firm attributes. More importantly, blame, in our cross-sectional study covering 68 investment management firms, is highly correlated with variables which predict sub-par long-term firm performance, poor client satisfaction and low employee engagement—none of the firm stakeholders benefit from a culture of blame.

In many ways, our results are unsurprising. The results are consistent with case studies and empirical analyses using firms from other industries. What is surprising is just how prevalent blame is as part of the corporate culture in the investment industry and how difficult it is to eradicate the blame culture, despite all of its negatives. Some insiders observe that to eradicate blame, the effort must start at the very top, and there lies the rub. Also interesting is that we find evidence in the qualitative data that investment firms can frequently dispense blame for short-term underperformance, which seems particularly troubling for an industry where the short-term performance is largely driven by noise. This may explain, in part, the widespread practice of year-end window dressing and closet indexing, which are all detrimental to long-term portfolio outperformance.

However, our interest, in this research paper, is less about providing a proscription for eliminating blame in the corporate culture but to, instead, provide quantitative analyses using a cross-sectional approach this is familiar to the finance industry to demonstrate that blame is extremely harmful to investment organizations.[19] This research can have implications for investment consultants and asset owners, who spend vast resources to research investment managers in the pursuit of alpha. Clearly, the presence of a "culture of blame" should be considered as a predictor of long-term investment results for investment organizations.

[19] See FCG's book, "High Performing Investment Teams" (Ware, Dethmer, Skinner, Zeigler) for more on reducing blame in organizations.

Appendix A: FCG Database Description and Data Collection Methodology

3,245 individuals from 68 Investment organizations were surveyed from 2010~2013 for the Focus Consulting Group survey on corporate culture. All individuals at participating firms were invited. The surveys were standard and not customized to the individual firms. The survey was conducted online with complete anonymity. Each invited participant has a unique link, which avoids multiple entries from the same individual. The recorded response rate was reported at approximately 90%. We report below relevant firm characteristics.

	Range	Median	Average
Firm AUM	\$200MM ~ \$124B	\$4B	\$17B
Firm Respondents	4 ~ 376	32	49

In this appendix, we describe only questions, which are used for our research. The FCG survey is significantly more comprehensive in terms of questions asked and information gathered.

The **Existing Firm Attributes** question asks the respondent to identify the top 10 elements, which exist in the firm. Respondent can choose from a list of culture terms, which are more positive (such as ethical, accountable, open to ideas, candid, collaborative, etc.), more neutral (fast-pace, analytical, cost conscious, long-hours, etc.) or more negative (manipulative, blame, defensiveness, territorial, negative, etc.). There are a total of 65 attributes that can be selected

To aggregate the individual selections into a firm level score for each culture attribute, we count the number of "votes" a specific attribute receives from all firm respondents and normalize against the number of respondents. If 80% of all respondents select "blame" as a top 10 culture element, the firm would score a 0.8 out of a maximum of 1 for the blame attribute.

We use responses from four questions on **Firm Outcome** as the key dependent variables for our cross-sectional study. Respondents are asked to rate their firm on a scale from 1 – 4, where 1 is the lowest. We reproduce the spirit of the questions below as the actual questions were often much longer to provide fuller context and gives examples.

Q1: The firm has an ability to attract top talents.

Q2: Employees have an ownership mentality.

Q3: I am "unlikely" to leave the firm for a similar opportunity elsewhere.

Q4: The firm is successful relative to other firms.

We note that Q4 can be interpreted by respondents as better investment performance or better financial performance, amongst others. However, insofar that financial performance for investment organizations are highly tied to their investment performance, we feel that the question captures a meaningful assessment on investment performance. For each firm, we compute its average scores for the four employee assessment questions.

In addition, for each question on the survey, the employees are recommended to provide free responses to further explain their answers. This gives us deeper insight into the mechanism that links say “blame” and “risk aversion”.

Appendix B: Predictive Proxy Variable Construction Methodology

Many of the existing firm attributes can be further combined to create "proxy" variables that are more convenient to use for our analyses. Specifically, we want to construct variables, which could help predict the firm's long-term operational performance, client satisfaction and employee engagement.

We use the following attributes to predict **long-term operational performance**.

+1	-1
Profit/Financial Success	Territorial
Client Satisfaction	Risk-averse
Accountability/Responsibility	Short-term Focus
Excellence/Continuous Improvement	Slow Moving/Reactive
Creativity/Innovation	
Collaboration/Teamwork	
Curious/Open to new ideas	
Risk-Taking	
Long-term Perspective/Vision	
Loyalty	
Shareholder/Owner Focus	
Passion/Energy/Motivate	

For every respondent, she selects 10 top firm attributes. We assign a value of +1/-1 if a selected attribute falls into the above +1/-1 categories; otherwise a value of 0 is assigned to the selected attribute. The 10 selections are summed to create a *long-term operational performance* predictive score assessed by respondent *i*. Note that the maximum score possible is +10 and the minimum is -4. We average over all firm respondents to compute the firm's *long-term operational performance*.

The selection of firm attributes to predict long-term operational performance is admittedly subjective. Given that our estimated coefficients are significant at the 0.1% level, we believe the definition is robust to a variety of other reasonable and related specification. In any case, we argue that these attributes are not controversial and generally intuitive, when one examines the literature on what drives firm success.

We use the following attributes to create a proxy variable for predicting employee engagement.

+1	-1
Loyalty	Bureaucracy
Appreciation	Territorial
Employee Empowerment	Disrespect
Fair	Gossip
Humor/Fun	Manipulation
Curious/Open to new ideas	Politics
Compassion/Caring	Negative
Open Minded	
Respect	
Passion/Energy/Motivate	
Positive	
Trust/Sincerity	
Candor/Honesty/Open	
Collaboration/Teamwork	
Bureaucracy	
Territorial	
Disrespect	
Gossip	
Manipulation	
Politics	
Negative	

We use the following attributes to create a proxy variable for predicting client satisfaction.

+1	-1
Client Satisfaction	Short-term Focus
Ethical/Integrity	
Excellence/Continuous Improvement	
Long-term Perspective/Vision	

Note that some attributes are used in multiple proxies. However, the three proxy variables are not highly correlated and do contain independent information relative to each other.

Appendix C: Select Qualitative Responses from Low Performing Organizations

A culture of blame usually starts and ends with senior management:

"It's fine for our CEO to talk about reducing blame, but he's the biggest offender. […] Until he changes, the blaming will continue."

"Our [management] needs to clean up its act or we will start to lose even more good people. I don't see the caring that we used to get around here. [People] aren't as happy and more people are taking time off rather than put in the time to really make a difference"

"You had better take a long look at our management and decide if we have the right group of people in the right seats. This goes to the highest levels, because no one is rallying around our leaders."

"I think employees (including myself) want a culture, where one can express his opinions freely and not suffer repercussions, if they disagree with senior management. They want a culture where they feel appreciated for their efforts. [Right now, the firm is such that] you never get any praise when you do something right but always receive criticisms and accusations when something is done wrong or [has gone] wrong."

"The organization has [a culture] that is run by an over-bearing micro manager that uses a stick more than a carrot."

"One senior member on the management team causes anxiety through her blame games and manipulation, as well as her negative and sarcastic comments. Her behavior causes employees to be defensive and creates negativity and complaints [in the professional staffs]."

"[Management doesn't pay attention], so there is little or no consequence to poor job performance; work just shifts to others, who are overworked. These people are then criticized for any mistakes. Morale is very bad. It's a great place to work, if you don't want to work hard.

Blame reduces employee loyalty and engagement

"The firm is not a 'fun' place to work. My experience is that many people are very unhappy, and given another opportunity, would jump at the chance to take it. This is evidenced by the recent departure of several employees, and I believe there are many more, who are actively searching for opportunities outside."

"If I valued my friend, I would tell him/her to look [for a job] elsewhere."

"It doesn't feel like a culture where you can be open and honest, it feels like your opinion is not valued or considered, or if you give feedback, it may come back to haunt you. So, what is the point of giving your feedback or opinions?"

"The main issue I have with the culture is lack of communication/leadership from the executive committee and a lot of finger pointing by everyone. This may be a good company to start a career and gain experience, but I'm not sure if staying long-term would be in someone's best interest."

"A lot of negativity and a lot of unhappy people. Can be quite depressing sometimes."

Blame creates fear and other organizational dysfunction which lower productivity

"The current culture is extremely negative. The morale is very low. The workers are consistently left in a very negative and frightened workplace."

"It is [like] swimming in shark infested waters. You have the [constant sense] that there are plenty of people around you who are waiting for you to trip up and go down."

"You always feel you have to watch your back. No real team spirit. Volatile personalities leading the business meaning you never really feel you can speak up."

"There is no openness to solve problems. You constantly have to be worried that things are held against you."

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