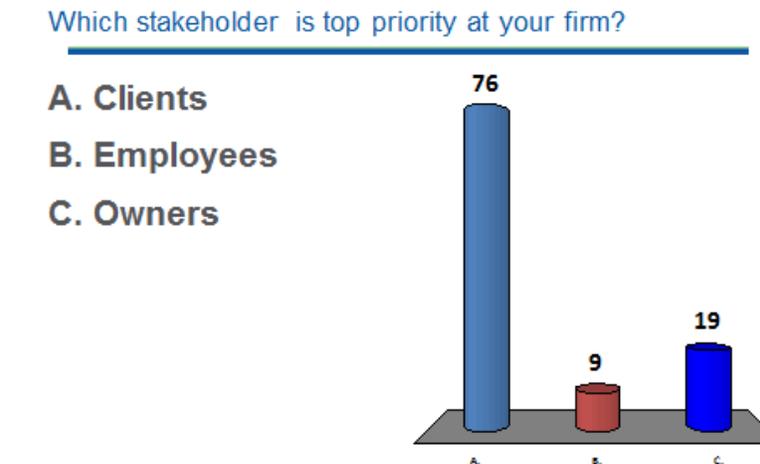


November 26, 2015

LOL Journal - Building a Client Centric Culture: Reality or Blindspot?

Which is more important to you: time with family or time at work? We all know the politically correct answer. Family. And yet many professional schedules would suggest that work trumps family, with many more hours spent at the office or on the road than at home. (Hey, I'm writing this on Thanksgiving Day, can you say, "Guilty as charged!" 😊)

Similarly, we all know the correct answer to the following question: which stakeholder is top priority at your firm? The client, right? The kind people at the Portfolio Management Association of Canada (PMAC) invited me to speak at their annual meeting of investment leaders and allowed me to collect some data on this topic. Here is the vote in the room of investment leaders:



Indeed, if we review the hundreds of culture surveys FCG has done for asset management firms, the top value chosen is "client satisfaction" as seen below:

1. Client Satisfaction 44%¹
2. Professional 42%
3. Ethical/Integrity 38%
4. Collaboration/Teamwork 37%

Many CEOs are shocked when they see their firm's client satisfaction number is less than 100%! They gasp, "How can any of our staff NOT vote for Client Satisfaction? Why isn't the number 100%?" An appropriate response and fair question. Some staff members have told us privately, "Client Satisfaction is a given, so I didn't want to "waste" one of my votes on it." Nevertheless, the survey results are out of kilter with the polling results from PMAC, where the audience response was well over 70%.

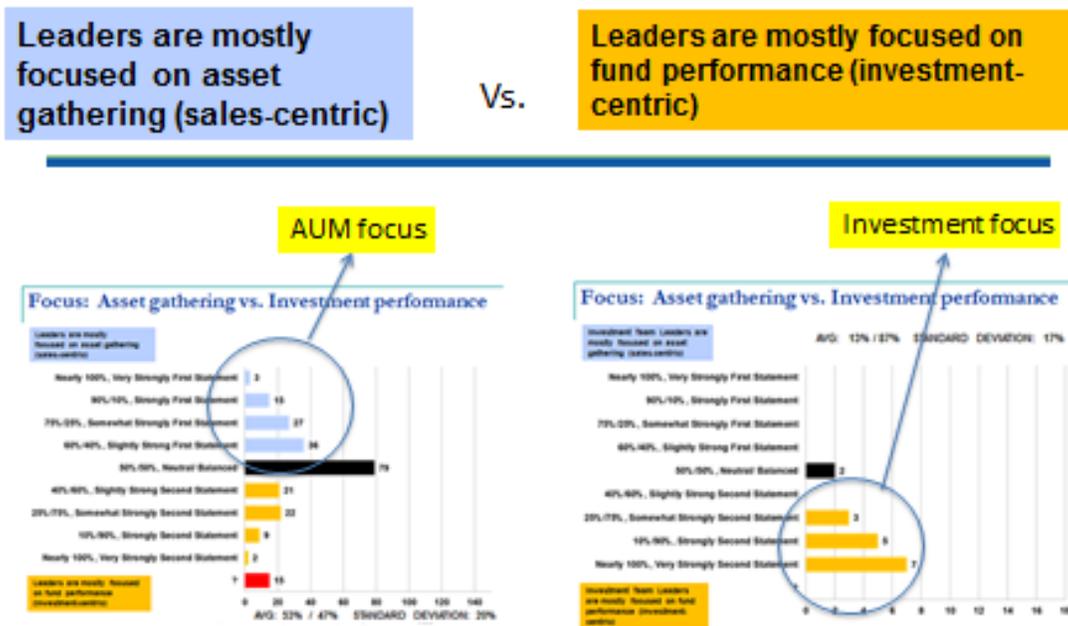
¹ Percent of respondents who chose this as a value in their firm's culture. Averaged over all the surveys FCG has done.

So, if we dig into this question of client centric, what do we find? As you might expect, we find a range of answers. Many firms we survey appear to be very client centric, especially the firms we call “Focus Elite.”² These firms also don’t reach 100% for client satisfaction but they are significantly higher than the average firm:

	Focus Elite firms:	Investment Industry:
Client Satisfaction: %	56%	44%

100% = everyone in the firm chose “Client Satisfaction” as a current value

FCG knows these firms well and can say with confidence: they do place the client ahead of all other stakeholders. For example, here is another culture survey chart which asks, “What are the leaders most focused on: gathering assets or investment performance?” The more typical firm is on the left, the Focus Elite firm on the right:



² The FCG Focus Elite firms are described in our paper called “Linking Strong Culture to Success.” See our website for a copy of this white paper: www.focusgroup.com

The firm on the left has a number of staff members who believe that leadership is mostly concerned with growing AUM. While the Focus Elite firm on the right has no such staff members. The Focus Elite message is clear: first and foremost we want to perform for our clients. (Note: FCG is not anti-growth! Our view is that growth must always place clients first.)

Further review of culture results for many firms revealed some truly alarming results. The firm XYZ whose results are shown below had not chosen “client satisfaction” in either the current or aspirational culture. (We will pause here, to give you a moment to gasp...)

Top 10 Values – Aspirational Culture

N=57	Number of Responses	XYZ Percent	Industry Percent
Excellence/Continuous Improvement	29	51%	41%
Professional	23	40%	33%
Respect	23	40%	23%
Passion/Energy/Motivate	23	40%	21%
Ethical/Integrity	21	37%	39%
Long Term Perspective/Vision	20	35%	43%
Competitive/Win/Be the Best	20	35%	15%
Collaboration/Teamwork	19	33%	41%
Intelligent	19	33%	26%
Entrepreneurial Meritocracy tied	18	32%	21%

QUESTION: Which values/behaviors best describe your preferred culture, that is, the one that would best allow the firm to realize its vision of success?

Can you imagine the CEO of this firm sharing these results with clients?! That would be a “PIMCO moment.” No doubt there are some fine values chosen by the staff—excellence, professional, integrity, collaboration, etc.—but the client would still be left wondering, “Why are **WE** not showing up in the voting?”

Even more intriguing is this result from the sales team at a different investment firm. This is the group of people who are specifically called on to find clients and take good care of them!

Top 10 values for same sales group, aspirational!

N= 21	Number of Responses	ABC Percent
<u>Accountability/Responsibility</u>	9	43%
<u>Commitment</u>	9	43%
<u>Professional</u>	9	43%
Ethical/Integrity	8	38%
<u>Collaboration/Teamwork</u>	8	38%
Excellence/Continuous Improvement	7	33%
<u>Results Oriented</u>	7	33%
Candor/Honesty/Open	7	33%
<u>Clear Performance Goals</u>	6	29%
Expense Control Competitive/Win/Be the Best, Positivetied	6	29%

How is it possible that the sales and client facing people are not choosing “client satisfaction” in their aspirational view of the firm?! (Interlude for head scratching...)

In part, the explanation may come from survey responses aimed at explaining what is most meaningful to staff members at investment firms. The results of six firms are shown below, and they are very typical of what we see in the industry:

Motivation: What has most meaning in daily experience?

N=968, from 6 firms. 3 US, 2 European, 1 Canadian

The work serves a <u>larger purpose</u> doing something positive in the world (such as allocating capital property in the markets.)	8%
The work contributes to a sound and <u>sustainable financial</u> future for our firm.	15%
The work benefits our clients, and I enjoy <u>happy clients</u> most of all about my job.	23%
The work <u>allows me to spend time with bright and engaging colleagues.</u> I like these team interactions best of all.	22%
The <u>work is interesting,</u> challenging and intellectually stimulating.	32%

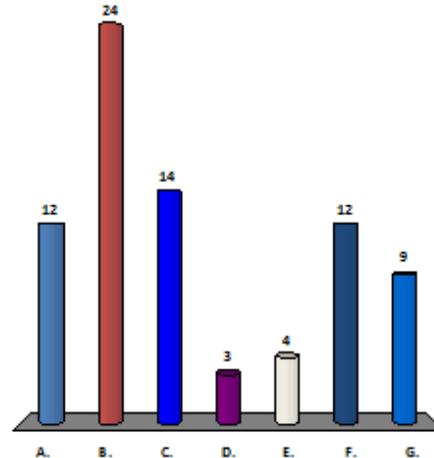
QUESTION: Please choose the TWO (2) factors that are the most meaningful in your daily experience.

Most investment professionals are motivated by the nature of the work. They love the challenge and intellectual stimulation of solving problems. After that choice, their motivation is split equally between clients and colleagues. Note, FCG is not proposing a conspiracy theory: that investment firms are actively working against their clients! Not at all. But like the professional who says, “My family is most important,” the industry seems largely unaware of the disconnect between what they say and what they do. Would it be useful to be more aware of the disconnect and then make adjustments, rather than leave it untouched as a blindspot? On this point specifically, one of the PMAC votes showed a lot of honesty and self-awareness. FCG asked them,

Moment of Truth:

At our firm, there have been some times when clients did not come first.

- A. Strongly Agree
- B. Agree
- C. Somewhat Agree
- D. Neutral
- E. Somewhat Disagree
- F. Disagree
- G. Strongly Disagree



More than two thirds of the room responded that indeed sometimes the client does not come first. If the first step in solving a problem is to acknowledge it, then this could be a healthy first step: awareness. FCG has certainly witnessed many strategy sessions in which the profitability of the firm came first. Clients were not treated with disrespect—as in the now-famous Goldman example in which clients were deemed “muppets”—but rather firm profitability was paramount.

FCG brainstormed examples from our client experience of “client first” vs. “profit first” and came up with these examples:

Two different mindsets:

Client centric:

1. Performance
2. Closing funds
3. Fees aligned with performance (fair)
4. Solution oriented, refer clients to best solution (custom)
5. Investment process and teams are top notch

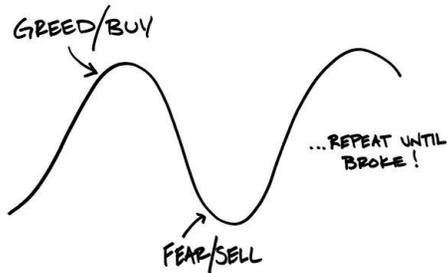
Profit mindset:

1. Asset gathering
2. Keeping funds open
3. Fees indifferent to performance (max)
4. Sell hot products, create funds to take it all (scale)
5. Investment engine is broken, but still promoted to clients

Discussing them in order:

1. Are the leaders focused on delivering results to the clients, first and foremost, or do they lean towards gathering assets? An example of this occurred in a firm in which the CEO was very sales-minded and was always looking for opportunities to grow. His CIO told him, “We should close our flagship fund. It has reached capacity.” The CIO thought they had reached an agreement: no more new assets. Within a week, the CEO met with a prospect who wanted to add \$200 million to the flagship fund. At first the CEO held the line and said, “No.” Then the moment of truth arrived. The prospect said, “Ok, how about \$400 million.” The CEO’s response: “Done!” Later that year, the CIO left the firm citing that incident as the “straw that broke the camel’s back.”
2. A different firm had grown its flagship fund to a sizable level. FCG asked the CIO of the firm, “What is the optimal size of this fund?” The response: about half of its current level. Again, if the client is really the top priority, then this fund should have been closed long before.
3. The fee question is increasingly relevant. FCG has written elsewhere about Baillie Gifford in Scotland whose partners have lowered fees in various products simply because they thought it was the right thing to do. Contrast that decision with a CEO in London who asked his lead salesman to continue charging 100 basis points for a product that was getting roughly half that fee in the market. The sales person—clearly of high integrity—quit, stating, “I don’t want my legacy to be: ‘he over-charged the clients for as long as he could.’”
4. The idea here is that if you really place the client first, you will look for best solutions. Even if that means referring the client elsewhere. One of FCG’s Focus Elite firms has done this, so don’t shake your head and say, “well, in the real world THAT would never happen.” It does. Because the firm in question really believes that the only way to build absolute trust with clients is to always give them the best deal. The opposite extreme is to promote “hot dot” products which

inevitably will collapse, hurting the client and leading to the wonderful graphic by Carl Richards:

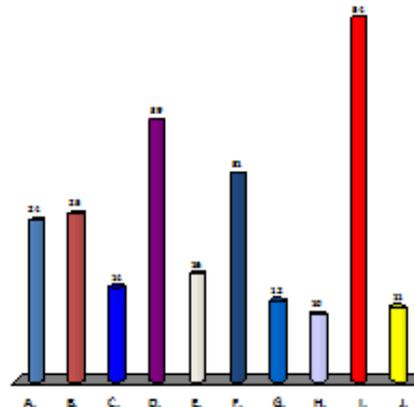


- The firms with high integrity and client-first mindset work tirelessly to keep their investment teams and process in top shape. Therefore, they can promote the products in good conscience. Conversely, FCG has worked with investment teams that are broken—by their own admission—but are still being actively marketed by the firm to consultants and clients. Can these firms honestly say, “Clients come first?”

After discussing these two different mindsets with the PMAC audience, I then asked them to vote on which behaviors/attitudes would best help to build a client-centric culture. The result is instructive:

Which behaviors/attitudes below would best help to build a client-centric culture? (Trust/ethics is a given)(3 votes)

- A. More empathy
- B. More candor
- C. More respect
- D. More accountability
- E. More curiosity
- F. More excellence/cont. improvement
- G. More caring
- H. More clarity and precision
- I. More listening
- J. More discipline



The audience selected “more listening” by a wide margin. FCG interprets this vote as a clear indication that tuning in to the needs of the client is the real key to “client centric” cultures. Another word for tuning in to another’s needs is “empathy,” which also got a significant number of votes. In our view,

empathy/listening would be core to a truly client-first firm. A recent Harvard Business Review article, entitled “Empathy is Still Lacking in the Leaders Who Need it Most,”³ stated:

Frankly, when empathy kept coming up in our research, I was surprised. All of the people we interviewed were serious business executives. Empathy was not the first virtue I associated with the rough and tumble of today’s highly competitive business world. I expected to hear about boldness, perseverance, and toughness. Later, when we reported the results of our research to other leaders, many said empathy was the most important of the five attributes we had uncovered. Why? Because empathy enables those who possess it to see the world through others’ eyes and understand their unique perspectives.

The authors conclude that:

Today’s multiple and highly vocal audiences demand to be heard or they will take their business elsewhere. You need empathy to know who those audiences are and what they want.

This final statement nicely combines empathy with listening (i.e. “demand to be heard”). To be a client-centric culture in today’s New Era, you need professionals who listen and empathize with clients. And then, they must have the courage to do the right thing: put the client first.

In addition to empathy, FCG has identified several other characteristics of client-first investment firms, as shown below on the left:

Mindset	
Profession	Business
Serve	Compete
Win/win	Win/lose
Client trusts you	Buyer beware

The mindsets on the right are not “bad” mindsets. For example, you would want your traders to have these mindsets. When they are trading positions in the markets, they must compete and win. That is appropriate. The problem occurs when these mindsets become the mainstay of the entire organization,

³ Harvard Business Review, Ernest Wilson III, September 21, 2015

including the client-facing professionals! Serving through good listening and empathy must be foremost in the client-first firm.

Returning to our original point about blindspots, FCG maintains that many investment firms have a blindspot around client-centric. These firms are run by good people with good intentions. No question. But like the professional who says, “My top priority is my family” and then spends nearly all his/her time working, there is a disconnect between what they say and what they do. There is a values clash. The professional wants to succeed at work—which requires time and effort—but s/he also wants to be a good spouse and parent. Balance is required. And often some tough choices. Likewise, the investment firm that wants to be client-centric must find the balance between serving the various stakeholders. The first step in finding the right balance is to recognize the blindspot: that we are often placing commercial success (i.e. profit) ahead of client interests.

So, what’s to be done? FCG recommends that investment leaders eliminate the blindspot by making client-first a regular topic at meetings and strategy sessions. Encourage staff members to filter every decision through the “client-first” value. Also encourage all team members to practice empathy: how will the client view this decision? Illuminating the blindspot will not eliminate all tough choices but it will bring integrity to the process. It will make for a clear-eyed view of all the options.

And now I will follow my own advice and join my family for the rest of Thanksgiving Day! ☺

Curiously,

JW