PART One

Foundation Pieces: Cornerstones of Long-Term Success

CHAPTER 1

Leadership and Culture in the Investment Industry

The most important lesson I have learned is never to forget that investment management is a people business.

—David Fisher, Chairman, Capital Group Companies[1]

Proactive attention to leadership and culture will help create sustainable success for your organization. To begin, leaders of investment firms must tackle the realities of this industry. This chapter covers:

- The traits of investment professionals and why they create distinct challenges for firm leaders.
- The myths of the financial industry and how they affect success and sustainability.
- The quantifiable difference in business results between firms that attend to leadership and culture practices and those that do not.
- The differences between leading and managing your firm.
- The definition of effective leadership activities.
- The questions that must be answered to distinguish your firm's culture.
- The financial impact of having a flexible culture.

In 1999, "Allstar Capital" was enjoying the fruits of a 17-year bull market. Since 1996, the firm's equity assets had grown from $13 billion to just under $40 billion. The firm's senior leader had become a minor celebrity in the investment field, having been asked to speak at many conferences and having been the subject of several press and trade articles and interviews. He was proud of the firm's success: During the past 20 years, only one investment professional had left for reasons other than retirement. In the past 10 years, no clients had left because of disappointment with his firm's performance. The firm was very profitable and at least 20 of the investment professionals were shareholders of this private firm. The credentials of the staff—MBAs from Harvard, Stanford, and the University of Chicago, plus CFA and CPA designations—were proudly displayed in a booklet in the reception area. The firm's exceptional track record and reputation attracted chunks of money from huge mutual funds, which Allstar Capital managed as a subadvisor. The managing director believed that teamwork accounted for much of the success. He explained in one speech that investment decisions at his firm were made as a team. Leaders at the firm wanted the professional staff to enjoy a "long-term and mutually satisfying relationship."

The Allstar story is a thread that runs through this entire book. (*Note:* Allstar represents a compilation of true stories from different firms with which the authors have had experience.) But why begin a book about investment leadership with a fabulous success story? After all, good news is boring. Everyone knows that there are lots of successful investment firms, making lots of money and keeping their clients happy. What is unique about Allstar Capital?

Its dramatic and complete failure. In 2002, Allstar collapsed. In just three short years, it went bankrupt. The $40 billion had shrunk to $2 billion. Allstar survived only because of an infusion of cash from a merger. Half the staff quit or was fired. Worse yet, one 43-year-old portfolio manager, with a wife and small children, was dead from what seemed to be a stress-induced heart attack. A wonderful success story that had taken more than 20 years to build was gone in what appeared to be the blink of an eye.

That's the point, and that's why we begin the book this way. This book is about *sustainable* success. We've isolated and detailed the critical success factors necessary for investment firms to thrive in the face of difficult market conditions. Bull markets and tech bubbles can hide lots of flaws. Perhaps no other industry is as vulnerable to the sin of hubris as the investment industry. While the Allstar Capitals were sailing, were they good or just lucky? When they failed, were they bad or just unlucky? Did these bright MBAs suddenly get stupid?

To make it crystal clear, Allstar's collapse was *not* caused by criminal acts. It was not an Enron or WorldCom or Andersen. No Allstar employees broke the law or created a scandal. So . . . what factors accounted for its success and then its collapse? How do you build a sustainable organization? What can be learned from Allstar's experience? That's the subject of this book. Our charge is to equip investment leaders, especially the "Bruces" and "Janes" discussed in the preface, with the mental models and tools that will help them create sustainable success.

UNIQUE ATTRIBUTES

Within the topic of strategies for building successful organizations, is there something unusual about the investment industry? In a word, yes. Investment professionals share a unique set of personality traits and personal values. To generalize, professional investors tend to be:

- Independent thinkers (nonconformists).
- Tough-minded (not sentimental).
- Naturally skeptical ("prove it" attitude).
- Anti-authoritarian (don't like to follow rules or sing company songs).
- Creative (question the status quo).
- Conceptual and task-oriented (rather than people-oriented).

When you add these characteristics up, you've got one hell of a management challenge! The television commercial that shows the ranchers herding cats isn't far from the truth.

Patrick O'Donnell, formerly a managing partner with Putnam, described the typical investment professional in similar terms, and noted that anyone charged with managing these folks "certainly needs a management structure that accommodates these individuals—a structure that develops and challenges analysts and one that provides for appropriate evaluation and compensation."[2] With this recognition and these characteristics in mind, we've written this book specifically for this audience. Later in the book we address the personality traits of investment professionals from a more objective, quasi-scientific perspective, using the Myers-Briggs Personality Type Indicator as a psychological measure. For now, let us just say that we know each investment firm will have its own set of challenges based on the people who are attracted to it.

INDUSTRY MYTHS

Before we discuss our findings from extensive research and experience, we begin with several myths—peculiar to the investment industry—that we discovered and shattered during our research of successful firms.

Myth 1: Money is everything

Reality To be sure, investment professionals are fascinated by money, and the industry is clearly one of the most results-driven. Nevertheless, our research shows that the most successful firms do not focus on their own profit. Yes, they are fabulously profitable, but mostly because they focus on their clients and how to serve those clients (namely, through excellent service and performance). In this regard, the best firms reflected Warren Buffett's view: "I love the process more than the proceeds, though I've learned to live with them, too."[3]

When it comes to employee satisfaction and loyalty, again, money is not everything. Yes, compensation is important, but survey results from Capital Resource Advisors show that the two most important factors are leadership credibility and organizational culture and purpose. Other studies, by reputable firms such as Russell Reynolds and Associates, confirm these findings: Money is not the top motivator. Paul Schaeffer, formerly of CRA and now with SEI Investments, summed it up well: "The investment management business is about a lot more than just making money."[4] Compensation becomes a major issue when employees feel that they are not being treated fairly. In this sense, "fairness is everything" does generally hold true in the industry.

Myth 2: Brains are everything

Reality As with Myth 1, many investment firms fail because they believe that sheer intelligence wins out over everything else. These firms recruit the top brains from business schools, pay them top salaries, and then turn them loose on the markets. In our Allstar example, this was the firm's strategy. It worked beautifully right up until the company fell apart.

The best firms realize that brains are enormously important, but also recognize that there is a second, equally important factor: cultural fit. Individuals need to share a sense of common purpose and guiding principles. The best firms hire for skills and fit. Gary Brinson, a legend in the investment business, addressed this myth head-on:

> *Given a choice between a highly talented but introverted, self-serving, and unenthusiastic person and another person who is not as smart but*

very enthusiastic, I will choose the enthusiastic person every time. The enthusiastic people may not have the highest test scores or may not have gone to prestigious colleges or universities, but they will fit much better within the culture of our firm.[5]

Myth 3: We can fix it ourselves

Reality This one is related to Myth 2, as many investment professionals believe that their high IQs will allow them to solve any problem. They don't believe that they need new mental models or advice from outside experts; they just need to turn their powerful brains to the problem at hand, and they will see the solution.

Einstein had a wonderful saying in this regard: "A problem cannot be solved by the same consciousness that created it."[6] Anyone in the investment industry will tell you that there is no shortage of ego among the professionals. Brains and arrogance combine to make it very difficult for investment leaders to ask for help. David Maister, Harvard professor and consultant to professional service firms, has some apt comments about investment professionals:

In many professions, especially the advisory professions, clients need trust and reassurance, and, to be successful, professionals must project an air of omnipotence and omniscience. Naturally enough, this manner carries over into other areas of the professional's life and breeds a sense of self-confidence, of mastery, that can handle anything.[7]

Myth 4: Good performance equals strong culture; bad performance equals weak culture

Reality We have met no one in the investment industry who likes to lose. By definition, this is a competitive group. When we show our culture research to investment professionals, they often react with, "Sure, the culture results look great for those firms; they have terrific performance records!" In other words, culture is seen as a proxy for investment success. Winners are happy people with a strong corporate culture; losers are unhappy people who complain bitterly.

This viewpoint may sound reasonable, and it may align with human nature—but it is not supported by our research. Many firms that we surveyed were in the middle of a very bad stretch of performance, but nonetheless showed remarkably healthy and strong cultures. The adversity had not caused the organization to break down. Alison Winter, executive vice president at Northern Trust, told us, "Of all the things I'm proud of about this team, I'm most proud of the fact that we've stuck together during these tough markets.” There’s an old saying: Weave your parachute before you have to jump! Alison and her team had created a strong culture before the hard times hit.

Myth 5: Bigger is better

Reality Sandy Weill and others appear to be living out this myth. Their thinking is that strategic acquisitions, huge capital pools, and economies of scale will win the day. Possibly, but our research shows that small and medium-sized firms can establish excellent track records for long-term success, without making any acquisitions. Charles Burkhardt was right when he said, “Investment management is not inherently a scale-oriented profession.”[8] Research from Capital Research Advisors bears out this statement, showing that profit margins do not increase with firm size.[9]

Myth 6: Honest guys finish last in the investment business

Reality With Drexel Burnham Lambert, Salomon, and Enron grabbing headlines for their misbehavior, there is a sense that playing it straight is a sure way to miss the glory in the investment business. An old joke in the investment business involves the ethics portion of the Chartered Financial Analyst exam: “What is the correct response to the ethics question?” Answer: “The one that makes the least amount of money.” (Tom Bowman is *not* laughing. . . .) In sharp contrast to the jokes, stereotypes, and general perceptions, we found that the best firms are fanatical about ethical behavior. Each of them had stories about turning away a profitable deal because it would have compromised their values.

Myth 7: Investment firms are unique and need different rules

Reality The suggestion inherent in this myth is that the nature of the industry, and the nature of its professionals, are sufficiently different from any other industry to warrant a different set of rules. We were open to this possibility as we performed our research. What we found, though, is that the same principles that drive other successful organizations hold true for investment firms as well. Human nature is, after all, human nature. Rather than say that investment firms require different rules, we believe that the same rules apply—but in some cases face unique obstacles. One of the reasons we wrote this book was to address these obstacles: How do you apply the time-tested principles of leadership and culture to the investment industry?

Myth 8: Investment professionals must lead investment firms

Reality Unlike doctors, who realize that the head of a hospital need not be a physician, many investment professionals believe that their leaders must understand the nuances of markets, foreign currency, valuation techniques, asset allocation, and the like. Often the excellent leaders do emerge from the ranks of investment professionals, but just as often we found that the top firms have assigned leadership to noninvestment professionals. In fact, one success model for investment firms was to turn responsibility for the day-to-day operations over to business experts and allow the investment pros to focus exclusively on the markets.

Myth 9: The investment industry has shifted from a star system to teams

Reality Not so. The industry has shifted to *talking* about teamwork, but in many such firms the star mentality is alive and well. Investment leaders have heard and seen a lot of evidence that the team approach is better. So they announce to their team on a Wednesday afternoon, just after the market closes, "Hey, you guys are no longer individual stars, you're a team."

You can imagine how well this works. The most damning evidence in this scenario is compensation. Some firms that talk team still compensate their staff in the old Allstar way: bonuses for individual performance. So much for the team approach.

Myth 10: Focus on and manage the hard data and you'll succeed

Reality Investment professionals live in a world of numbers: stock prices, dividends, margins, turnover ratios, growth rates, and earnings, and so on. Small wonder that they are suspicious of anything that isn't quantifiable—such as people, who are by definition difficult to quantify. Jeffrey Molitor at Vanguard agrees: "The people element is the most difficult, but ultimately the most important, to judge."[10] Rather than sweep the problem under the rug, by dismissing it as "soft" or "touchy-feely," investment leaders must learn to measure and manage their most important asset: people. The top firms have mastered this combination of hard and soft. Chapters 5 through 8 are devoted to such measurements.

MENTAL MODELS

Mental models are the road maps that skillful leaders know and use. We borrow this term from Charlie Munger, Warren Buffett's long-time sidekick, who believes they are the key to investment and business success. The more mental models you have in your toolkit, the better off you are likely to be. For example, if you have learned a model for resolving conflict between staff members, then you're a step ahead of the leader who simply reacts to a skirmish with, "Oh crap, here we go again." Many of the investment professionals with whom we've worked have a huge array of great mental models for the markets; they have rules and guidelines for dealing with any number of market contingencies. But when it comes to leading the firm, their mental models are either absent or astoundingly primitive. (The conflict-avoidant boss in the preceding example might resort to the only strategy he knows, the Archie Bunker approach: "Okay you two, stifle!")

Our goal is to provide mental models that allow leaders to achieve long-term success. Leaders must, of course, be open enough to their own shortcomings to believe that they need better mental models. A study at Cornell suggests that those with the least expertise in a given subject are often the most overconfident. Why? How can that be? Precisely because they don't know what they don't know.

Before I played golf, I used to think it was an easy sport. Because I had not hit my first slice or shank, I had no idea what I was in for. The game looked easy: hit it straight, then hit it straight again. Then tap it in the hole. Simple . . . at least in theory. (Golf has become mainly a water sport for me.) Many investment leaders that we've met with seem to labor under a similar misconception. Managing people is easy, they think: pay them well, tell them what to do, hold them accountable. Simple. Until your best portfolio manager leaves and takes his team with him.

The most impressive bosses, in our view, are the ones who can objectively and humbly examine their own strengths and weaknesses. Jeff Diermeier, chief investment officer at UBS Global Asset Management (by some measures the largest investment firm in the world), comes to mind. When Jeff, who had been Gary Brinson's right-hand man at Brinson Partners, assumed the top job at UBS, he immediately retained a personal coach. Why? Because he knew he was going to need help and was humble enough to go get it. Jeff's humility also revealed itself when we asked him to rate the culture that he was building at UBS. Rather than giving us a show of bravado by rating it a 9 or 10, he modestly assigned it a 6. Integrating the investment operations of Paine Webber, Brinson Partners, Philips and Drew, Warburg, and others is a huge task. Jeff's combination of a high IQ (intelligence quotient) and high EQ (Emotional Intelligence Quotient) will serve him well in his mission.*

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*Diermeier resigned from UBS as this book went to press.

SHOW ME THE MONEY!

A reasonable person might say, "We all prefer a nice working environment to some sweatshop, but not if it means sacrificing top performance. Is there bottom-line evidence to show that these 'outstanding' companies are also more profitable?" An important, and not unexpected, question from investment professionals.

We asked this very same question of Robert Levering, director of the Great Place to Work Institute (author of *Fortune*'s "100 Best Companies to Work For" list). First we asked how he defined a great place to work. He responded, "A great place to work has three components: (1) you trust your coworkers, (2) you have pride in your firm, and (3) you enjoy the people you work with."

We also inquired into his methodology for choosing the 100 top work environments. Part of our interest was the overlap in our lists. Many of the investment firms that we had separately researched and identified as being examples of outstanding leadership and culture also showed up on Levering's list (e.g., Vanguard, American Century, Goldman Sachs, and Edward Jones, among others). Levering explained his rigorous process, which includes significant input from the firm's employees. Companies cannot buy their way onto the list (as they can with some of these infamous lists), nor can senior management dazzle their way onto it with a slick presentation. Employees themselves (a random sampling of at least 250) provide input and must support management's claim that the company provides a great work experience.

All right, but is there evidence that these kinds of firms outperform mediocre work environments? Yes. Levering has engaged Frank Russell to measure the performance of the publicly traded "100 Best Places to Work" companies. The results for the period 1998–2002 were as follows:[11]

	Portfolio of "100 Best Places"	Russell 3000	S&P 500
Annualized return	9.86%	–.71%	–.56%

Similarly, Collins and Porras found that their *Built to Last* companies also outperformed the others. In the period 1926 through 1990, the 18 exemplary companies had stock returns that were 6 times the level of the mediocre companies and 15 times the market average.[12]*

*Since 1990, the BTL companies have continued to outperform by 350 basis points over the S&P 500.

What about investment companies? Do they show the same kinds of results? Interestingly, the performance results for investment companies are even more pronounced. We measured the five-year stock performance of the publicly traded investment firms that Levering had selected (and that we researched and also selected) against eight other publicly traded investment firms. Here are the results:[13]

	Portfolio of top five investment firms	Portfolio of eight other investment firms
Total return	49.8%	20.7%

We present this information right up front because we are aware that this "squishy" subject invites cynicism. As Peter Lynch's often-quoted quip goes, "I like to buy companies that any fool can run, because eventually one will."[14] And Sandy Weill has said, "What is culture but something they put in yogurt?"[15] Time will tell whether companies such as Citigroup, which generally discount culture as a success factor, will continue to prosper. Meanwhile, our warning to investment professionals is simple: Ignore leadership and culture at your peril. Jim Tyree, CEO at Mesirow Financial, said it best when he eliminated all the small talk and told us, "Culture is everything." The preceding numbers suggest that he is right.

LEADERSHIP AND CULTURE: DEFINED AND MEASURED

Given what we know about investment professionals and leadership strategies, what else makes leading an investment firm so challenging? Table 1.1 summarizes some key comparisons.

TABLE 1.1 Preferences and Practices Comparison

Investment Professional Preferences	Proven Leadership Practices
Nonconformist	Collaboration and team approach
Tough-minded	Emotional intelligence and self-awareness
Skepticism ("show me" attitude)	Believers in firm norms and cultural standards
Anti-authoritarian	Recognize importance of "fit" with culture
Anti-status quo/creative	Use of models: learning from experience
Task/results-oriented/preference for quantifiable outcomes	People-oriented; know importance of qualitative outcomes

Our intention is not to create mutually exclusive descriptions. Rather, we will show that when the natural tension between investment professionals' traits and best "people" practices is actively managed, sustainable success follows.

Weathering the Tough Times: William Blair & Company

Because our emphasis is on long-term success, this book continually gives examples of companies that have weathered the tough times and emerged intact. William Blair & Company is one such firm. During the tech bubble in the late 1990s, Blair's performance came under intense pressure: Performance was strong, but it was not at "bubble" levels. Traditional approaches to money management fell way behind the hot dot-com funds. Some clients left. Blair also lost several young investment bankers who accepted jobs as CFOs at the hot new Internet companies. Understandably, senior leaders were concerned about the future of their firm.

Today, Blair has not only survived, but is flourishing. The details of how it weathered the ups and downs of the tech-bubble storm are related in various chapters, but the main point is summarized in comments made by vice chairman and CEO, E. David Coolidge III:

> *On the business side, we tend to be financially conservative, so we weren't overextended during the rough period. Our operating model is to have relatively small salaries and high bonuses. Plus, as an independent firm, we avoid a lot of the outside pressure which can be very short-term oriented. So all that works in our favor through good times and bad. But the real strength here is our culture. We work very hard at recruiting and hiring and keeping talented people who love this field and who love our approach. We genuinely like working together.*

Our extensive interviews at Blair support Coolidge's statements. David Ricci, an analyst hired from the retail industry by Blair, told us that the culture at Blair was "too good to be true. They actually practice a win-win philosophy here. My colleagues here want me to be successful. It sounds corny but it's true. I'd never go to Wall Street. Not after this." Ricci, who is now the Consumer Group head, also had worked at Procter & Gamble, a *Built to Last* company. Ricci prefers the Blair culture: "At Blair they are looking to make you a partner from day one. The retention rate is remarkable. At P&G nine out of ten employees were out after six years. The attrition rate was remarkable!" Ricci's belief in the power of culture extends to his company research, where he includes culture as an important analytical factor. Much of what we discuss in this book, albeit in relation to investment firms, he uses to analyze nonfinancial firms. The bottom line for Ricci: "I sleep better if I know a strong culture will carry the firm through hard times." Leaders of investment firms can sleep better by building a strong culture in their firm.

Another employee who echoed Ricci's endorsement was Isidora Lagos, a recent addition to the Blair team. With a background in consumer products, she told the Blair recruiters that she was not a financial services person. Their response? At Blair it's 90 percent fit and personality and 10 percent the smarts to figure it out. As a single mother, Lagos has found Blair to be an excellent blend of competition and compassion. She is challenged and excited by her work, but also told us many stories about the support she has received to help her balance work and family concerns. She made the same comment as Ricci: "It's too good to be true here."

I got a small taste of the genuine empathy these employees described when I had to cancel a scheduled interview with Blair's CIO because my infant daughter was having emergency surgery. Two Blair employees called and left lengthy phone messages that clearly indicated their level of concern. Their gist was, "Don't worry at all about the interviews, they can be rescheduled, just take care of your family."

This concern was also demonstrated in the way Blair handled layoffs during the rough times. Sources told us that president/COO John Ettelson, realizing what an enormous blow this was to people who had been part of the Blair "family," had trouble sleeping during that period. Blair employees stayed in touch with those who were laid off, providing leads for jobs, support, and references. As Lagos said, "No one told us to keep track of these people, we just naturally wanted to help."

Contrast our Blair experience with the one we had with a large, well-known West Coast firm. The day before we were to visit the firm, we received a call from the interviewee's assistant, saying that the person had been called out of town and would have to cancel. Of course, these things happen. But because we had already blocked out the day and paid for airline tickets, we asked if we could meet with another company representative. The assistant called back shortly, only to say curtly, "No, there is no one available." And that was that. We never got an apology from the interviewee, nor did we get an offer to reimburse us for expenses. We never had any further contact with that person, even after we sent a polite e-mail asking if we could reschedule. Our rule of thumb for culture research is to assume that leaders don't change their spots. If we got treated that way, the likelihood is that employees get similar treatment.

Strong cultures are built on respect. In the case of Blair, everyone at the company showed us respect—in spades. Firms that demonstrate a strong culture of respect and pride of membership can ride through the hard times without coming apart at the seams. As you will see, the Allstar Capitals of the world may flourish during bull markets, but they often implode when bad markets hit.

Leading versus Managing

Firm leaders often describe themselves as managers. In law firms, for example, the title "managing partner" is the designation for the person who makes decisions about the firm's internal operations. Though the leadership and managerial roles are not mutually exclusive, the successful development

TABLE 1.2 Differences Between Managing and Leading

Management	**Leadership**
Planning and budgeting: establishing the detailed steps and timetables needed to achieve results, then allocating the resources needed to make it happen	*Establishing direction:* developing a vision of the future and the strategies required to produce the changes to achieve that vision
Organizing and staffing: establishing structure to accomplish the plan, delegating authority, providing policies and procedures, establishing systems to monitor implementation	*Aligning people:* communicating direction, in words and deeds, to all whose cooperation is needed; creating teams and coalitions that understand the vision and strategies and accept their validity
Controlling and problem solving: monitoring results, identifying deviations from the plan, and solving problems accordingly	*Motivating and inspiring:* energizing people to overcome major political, bureaucratic, and resource barriers to change, by satisfying basic, but often unfilled, human needs
↓	↓
Produces a degree of predictability and order and has the potential to consistently produce results	Produces change, often to a dramatic degree, and has the potential to produce extremely useful change
Management Creates	**Leadership Creates**
Plans: The specific steps to implement the strategies	*Vision:* a sensible and appealing picture of the future
Budgets: The conversion of the plans into financial projections and goals	*Strategy:* A logic for how the vision can be achieved

of leadership and culture requires a clear and proactive distinction between them. What's the difference between leading and managing?

John Kotter, in *Leading Change*, charts the difference as shown in Table 1.2.[16]

We address vision and strategy in Chapters 2 and 9.

LEADERSHIP BEHAVIORS

> *If our economic organizations are going to live up to their potential, we must find, develop, and encourage more people to lead in the service of others. Without leadership, firms cannot adapt to a fast moving world. But if leaders do not have the hearts of servants, there is only the potential for tyranny.*
>
> —John P. Kotter, Harvard Business School[17]

> *I don't know what your destiny will be, but one thing I know; the only ones among you who will be really happy are those who have sought and found how to serve.*
>
> —Albert Schweitzer[18]

Service is at the heart of leadership, but what, specifically, does "acting like a leader" mean? Executive recruiters at Russell Reynolds Associates studied the critical success factors for chief investment officers. They intentionally targeted behaviors rather than vague generalities, and concluded that a top CIO:

1. Fosters a culture of intellectual curiosity and analytical rigor.
   —Creates an environment of respect and collaboration.
   —Shapes, articulates, and exemplifies the values of the group.
   —Promotes a meritocracy.
2. Interacts with respect.
   —Persuades rather than commands.
   —Sharpens focus.
   —Inspires with compelling thought leadership.
3. Develops investment capabilities.
   —Elevates judgment to an art form.
   —Stimulates insight.
   —Leads a thought process.
   —Coaches, mentors, and develops others.

4. Captains the investment process.
   —Establishes a philosophy and a framework for investing.
   —Clearly articulates core investment tenets.
   —Requires consistency in application of investment discipline.
   —Sets and holds high standards.
5. Seizes the moment.
   —Assesses the probabilities.
   —Makes timely decisions in the face of ambiguity.
   —Assumes personal accountability and holds others accountable.[19]

Leadership is not a matter of personality or charisma. It requires concentrated action in all these areas.

LEADING OTHERS

The preceding framework from Russell Reynolds provides a mental model for thinking about good leadership practices. You can use it as a checklist for leadership actions.

Remembering that our goal is to provide the reader with a number of useful mental models for leadership, let's look at another framework, developed by Paul Hersey and Kenneth Blanchard, called *situational leadership*. Their model is also based on findings from leadership research.[20] They discovered that leadership behavior toward others can be described as either task-driven or relationship-driven. When the leader is most interested in the task to be completed, task behavior is demonstrated. When the leader is emphasizing support of the person involved, relationship behavior is evident. Given that task and relationship behavior can be expressed strongly or weakly, there are four different combinations of them, called *styles*, as shown in Table 1.3. The appropriate style depends on the job maturity of the individual in regard to competence (Can the person do the job?) and job ownership (Can the person take responsibility for it?). Because the answers to these questions will change depending on the assignment, the appropriate leadership style is situational.[21]

RECOGNIZING CULTURE

If three of your top-notch people were asked to describe the culture of your firm, what would they say? What would they use as examples of your "culture"?

TABLE 1.3 Leadership Styles

Combination	Style Name	Appropriate for a Person Who
High task, low relationship	Directive, telling, hand-holding	Is unable and unwilling to perform the assigned task
High task, high relationship	Persuasion, influence, selling	Is unable but willing to do the job
Low task, high relationship	Participative	Is able but unwilling or a bit insecure
Low task, low relationship	Delegative	Is both able and willing to do the task

In all likelihood, you would hear descriptions of beliefs: beliefs about productivity, about client service, about coworker interaction, about attitude. Answers about culture address the questions "What's it like to work there?" or "What is our way of investing?" Another way to define culture is to ask employees, "What does it take to succeed in this organization?" Again, you will hear in their answers what they believe is true about the expectations of and within the firm.

High-performing cultures ask—and answer—four questions:

1. About clients: What do we believe about client service?
2. About excellence: What are our quality standards?
3. About groups: How do we treat each other?
4. About individuals: What do we do to create a truly satisfying work experience?[22]

The systems and processes you design to enact and integrate beliefs in real life create and solidify your firm's culture. In Chapters 5 through 8, we discuss these kinds of processes in detail and introduce metrics for measuring culture.

Culture and Financial Impact

Companies can have a long-standing culture and still fail if they cannot change with the needs of business or the marketplace. In their book *Corporate Culture and Performance*, John Kotter and Jim Heskett reported research on which types of culture were associated with the strongest financial performance.[23] They found that strong cultures were associated with the

TABLE 1.4 Adaptive versus Nonadaptive Cultures

Performance Measures	Firms with Strong Adaptive Cultures	Firms with Less Adaptive Cultures
Revenue growth	682%	166%
Employment growth	282%	36%
Stock price growth	901%	74%
Net income growth	756%	1%

best business results. These cultures got people aligned with the firm's goals, values, and strategy, and were able to change relatively quickly when business needs changed. Collins and Porras arrived at the same conclusions from their research: The strongest cultures also seem to be the most adaptive.[24] Like a flock of birds that stays in tight formation, companies with strong cultures "flock" around the same values, beliefs, and behaviors. The financial performance of firms with more adaptive and less adaptive cultures are compared in Table 1.4.[25]

Myths and models are examined in the rest of this book. We start our journey in the same place where Collins and Porras started theirs: the core values and vision of the firm. The best firms are clear about who they are and where they are going.

TEST YOURSELF

As a warm-up, see how you do with the following yes/no quiz.

	Yes	No
1. I can name three challenges of building and maintaining culture in an investment firm.		
2. I can cite at least one study showing the link between the "people" side of the firm and the firm's profitability.		
3. I can name actions that our leadership team is taking to build and maintain our culture.		
4. We have clearly identified and defined our firm's values or guiding principles.		
5. If I asked three different employees to name our core values, they would give the same answer.		

	Yes	No
6. Our values are central to our hiring and orientation procedures.		
7. Our values are central to our performance evaluation system.		
8. We can all clearly state our core purpose (vision/mission) in three minutes or less.		
9. Our core purpose goes beyond making money.		
10. This year's strategic goals/objectives are clear and well-known throughout the firm.		
11. Our employees know when and how communication about progress on our goals will occur.		
12. I know the essentials of leadership and motivating people for success.		
13. I can quote a useful working definition of trust from memory.		
14. I understand the basics of building and maintaining trust in my firm.		
15. I understand the basics of managing continuous improvement or renewal.		
16. We have a leadership development system, which addresses succession.		

If you answered a resounding "Yes!" to each of these statements, then give this book to one of your less enlightened colleagues and get to work writing your own book! You obviously have much to offer in the way of leadership insights. For the rest of you, read on and test yourself again when you have finished.

People resources are critical; they dwarf technology or any other variable anyone might cite as being the key determinant of success.

—James Rothenberg, President,
Capital Research and Management[26]

People are the raw material in the investment management business.

—Thomas Luddy, Chief Investment Officer, J.P. Morgan[27]