

Effective cultures in investment organisations

Roger Urwin | July 2019



Summary

‘Culture eats strategy for breakfast’

- Culture is a unique ingredient in the struggle for competitive advantage among investment organisations
- McKinsey data suggests companies with effective and aligned cultures and strong organisational health deliver much higher performance.
- We define ‘effective cultures’ as those that help investment teams to deliver better performance and create more value

Culture can be measured and managed

- There are ways for culture to be managed and developed over time but it will take focus, patience, leadership and process
- Having a clearer understanding of and language for culture without recourse to stereotypes is critical
- For most investment organisations good culture starts with being client-centric and people-centric

This research

- This research included meta-study work, primary analysis and references 20 organisations
- It updates the previous research and paper* with new conclusions on diversity and inclusion, transparency and innovation; sub-cultures and merger issues; and leadership

* ‘The impact of culture on institutional investors’ Roger Urwin/TAI (2015)



Culture road-map

From

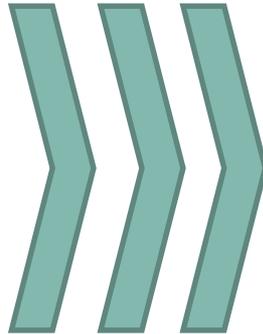
Culture discussions lack vocabulary and good quality narrative

Treating culture as a fixture (and a constant) not as a fitting (and a variable)

Culture not well integrated with beliefs, strategy and vision

Culture set by accident and not well differentiated

Purpose not a big part of the vision and mission



To

Culture discussions grow in clarity, authenticity and impact

Better appreciation of what can be done to manage culture directly and indirectly

The synching of strategy and culture

Culture set by design and providing opportunities for adaption and innovation

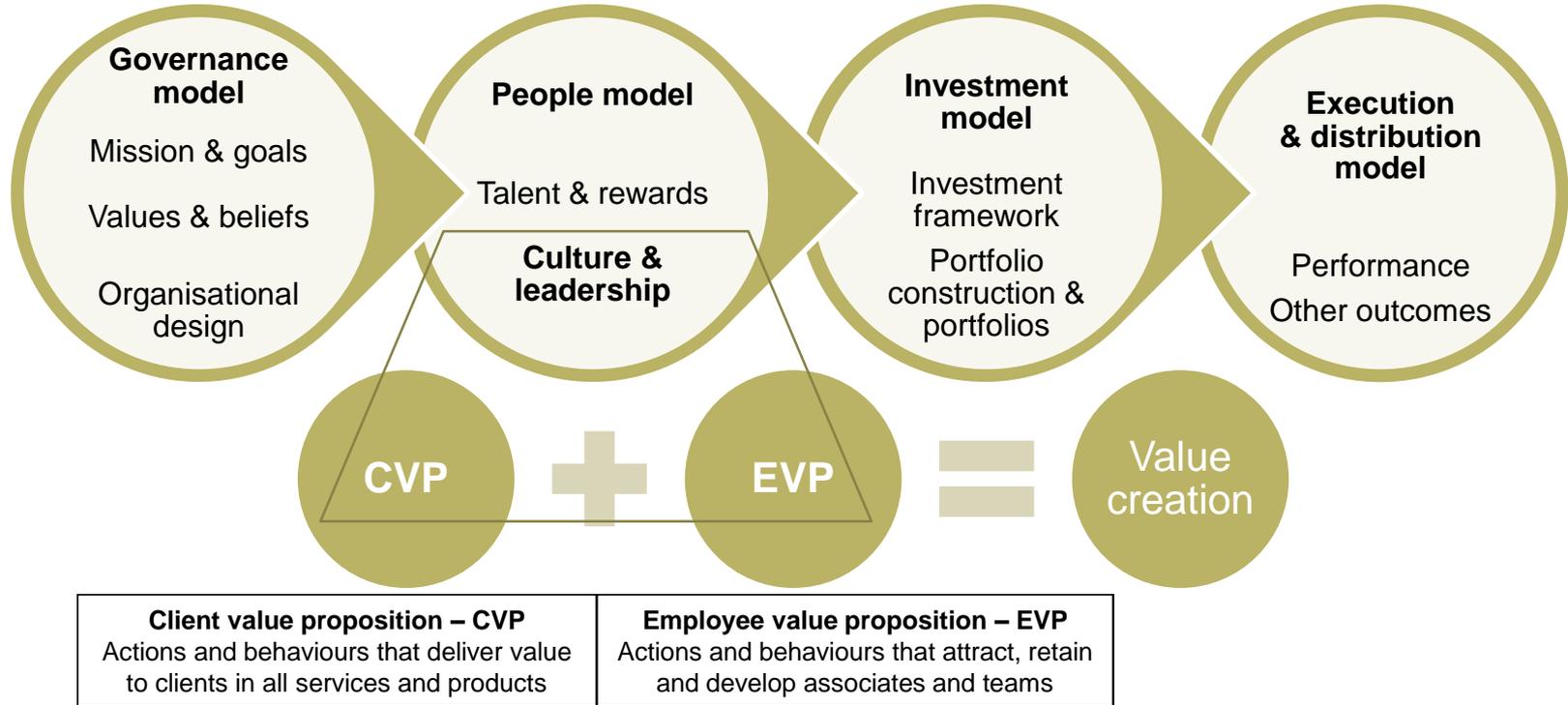
More purposeful investment firms as an industry opportunity

Culture and leadership



Culture	Leadership
<p><i>The collective influence from shared values and beliefs on the way the organisation thinks and behaves</i></p>	<p><i>Influencing a collection of people to achieve a common goal through strategy, motivation, and development</i></p>
<ul style="list-style-type: none">Value added by culture<ul style="list-style-type: none">Aligning values and beliefs; establishing expectations and trustCapturing the power of communication and engagementBuilding focus on the important things; reducing uncertainty	<ul style="list-style-type: none">Value added by leadership<ul style="list-style-type: none">Developing values and beliefs; setting vision and direction;Creating organisational muscle – including alliances and providersBuilding culture and team spirit; setting expectations

Culture framework



The 'TAI culture model'

TAI culture model

1. Client-centric culture

fiduciary duty; empathy and listening

2. People-centric culture

collaborative ethos; belonging; development

3. Empowering leadership

setting direction and tone; facilitating

Principles

- Build the complex and unique multi-faceted culture signature
- Measure and track the components of culture
- Support the language, narrative and the culture stories
- Shape and implement the management of culture

4. Performance culture

excellence; focus; diversity

5. Integrity culture

respect; ethical orientation

Strong mind-set cultures

6. Inclusion & diversity

7. Transparency

8. Innovation

Strong staying power cultures

9. Long-term

10. Risk culture

11. Agile & adaptive

Strong leadership cultures

12. Servant leadership

13. Dominant leadership

14. Nimble/transformational leadership

Beliefs on culture and its value

Culture is unique	<ul style="list-style-type: none">▪ Culture is a unique organisational characteristic; it can't be copied or mimicked
Culture is embedded	<ul style="list-style-type: none">▪ Culture is positioned as both an output from organisational inputs (mission, governance, leadership and others) and as an input to organisational outcomes
Effective culture does several things	<ul style="list-style-type: none">▪ Effective culture combines cultural strength; cultural alignment with strategy; leadership action using culture; employees aligning to culture
Culture creates value through CVP and EVP	<ul style="list-style-type: none">▪ Culture exercises its main influence on business value creation by increasing CVP and EVP



The different cultural signatures

Culture is multi-faceted	<ul style="list-style-type: none">▪ The cultural model of an organisation combines exposures to a number of cultural attributes▪ But having too much of a good thing with culture can become a bad thing and the trick is getting to an optimal 'sweet spot' for each. Culture is no respecter of excess
Client-centred culture	<ul style="list-style-type: none">▪ The first cornerstone cultural attribute lies in the client focus – the purpose and drive of the organisation in serving clients and key stakeholders
People-centred culture	<ul style="list-style-type: none">▪ The other cornerstone attribute is people focus – how the workforce is treated and behaves, and how it works together
Investment culture	<ul style="list-style-type: none">▪ An investment culture in an organisation reflects a passion for investment as a craft and competitive skill (motivated by the intellectual and performance challenge) and a professional calling (motivated by being trusted with other people's money)▪ This is a composite cultural signature that combines all the main culture elements. Investment culture is difficult to develop because of the nature of the commitment to clients<ul style="list-style-type: none">▪ There are difficulties from complexity, ambiguity and lengthy time horizons in dealing with the trade-offs among stakeholder interests▪ In these trade-offs of multiple interests asset managers all too often do not put client interests first but claim to do so

Setting / settling the priorities

Investment culture is mediated by these factors

Values and priorities

How value is identified and prioritised is a question settled by some combination of strategy and culture, values and beliefs, through the mission and vision of the organisation

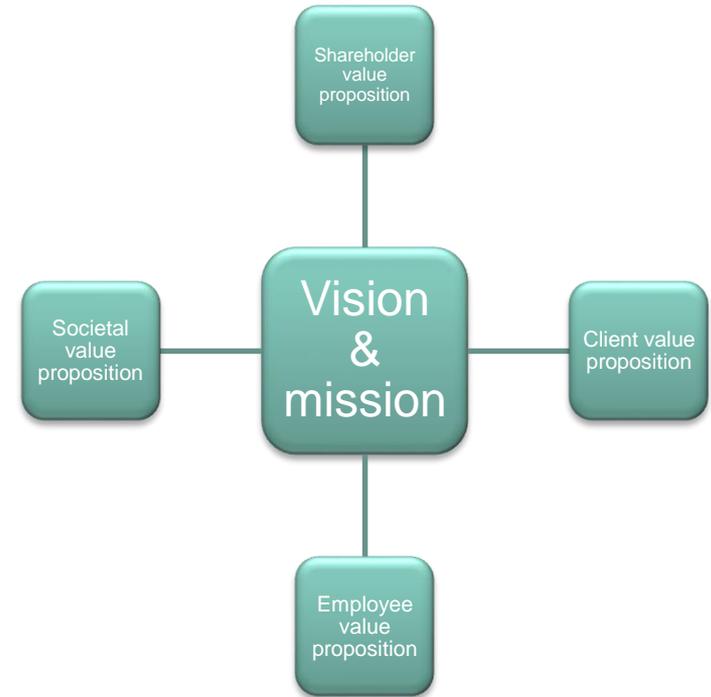
Preferences as revealed by data

Observed behaviours on priorities come out in these sorts of figures (just an average, also surveys come out differently with biases towards clients) (Source: TAI)

- 1) Shareholders c45%
- 2) Clients c35%
- 3) Employees c20%
- 4) Society c1%

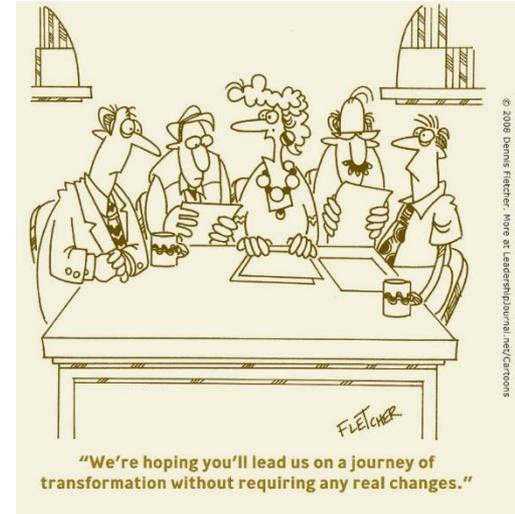
Trade-offs

The organisation's purpose is reflected in this mix. While organisations may argue that they can meet all goals, there are always trade-offs to be considered



Time out

- We need to go deeper into the thinking to build the bigger story and it involves more change
- Change hurts – but change is needed
- New findings in this updated research
 - Cultural edge – notably, inclusion and diversity
 - Sustainability – notably, time horizons and risk are highly textured features
 - Leadership – notably, the servant leader opportunity
 - Blemishes – notably, the reliance on a star culture
 - Sub-cultures – can be net positive, but are mostly net negative, notably in merger outcomes



Culture 'edges'

Inclusion & diversity

- Diversity is the presence of differences in the workforce, inclusion is the leverage of those differences
- Diversity and inclusion have two valid motivations – to build a fairer and better culture, and to build a stronger and better business model.
- Diverse groups of people bring more and different ways of seeing problems and, thus, better ways of solving them
- Diversity is most impactful when it's innate to an individual's values, perspectives and experiences.

Transparency

- Greater transparency with good feedback loops produces more decentralised information allowing decisions that are more empowered and reflective of quicker and more accurate responses; and decisions are more open to external scrutiny supporting potentially stronger trust
- Radical transparency (see Dalio) involves individual feedback models that are continuous and candid; make allowance for mistakes by learning from them; individuals' strengths are inputs to decisions (believability scores); conflicts are used to resolve differences; performance accountabilities and attributions are heightened
- But this calls for exceptional emotional resilience

Innovation

- Innovation norms line up with a number of attributes: being entrepreneurial and having an ownership attitude; having a clear focus on the market-place and anticipating new market needs; encouraging and recognising new ideas; bias towards taking action
- Innovation is supported through processes like test and learn applications and by calculated risk taking
- In the investment industry context, innovation results are slow to emerge, subtle and need narrative (the interpretation of outcomes is uncertain and ambiguous with limited directly attributable data)

Culture 'sustainability' attributes

Long-term

- Good culture declines with time without strong actions to maintain it. The larger the firm, the proportionately larger the energy needed to maintain or shift culture. How organisations marshal themselves to deal with their commitments to their stakeholders that have very long time horizons is a critical marker of positive culture
- Organisations are culturally wired either to play a tactical and short-term 'game' or to be more strategic and long-term in behaviours and actions. Long-term and patient cultures appear more sustainable
- Cultures that are long term have to confront values in people and organisations that are innately shorter term in attitude and preference.

Risk culture

- Risk culture comprises the norms and traditions of behaviour that determine how the organisation and its associates identify, understand, discuss and act on risks
- A poor risk culture is a key cause of undesirable outcomes in organisations, especially financial ones (eg Lehman)
- But a positive risk culture is indicative of (1) well-calculated positions that can create value for stakeholders and (2) alignment to strategic positions that change given new circumstances, hence a link to agility

Agility

- There is a cultural dimension in how organisations position themselves positively to develop on the back of new conditions and circumstances as opposed to being blind-sided by change
- How well an organisation is positioned for change is conditioned by both strategy and culture. The cultural preparedness for change is supported by a mind-set that is curious, open-minded and self-aware
- An investment organisation's nimbleness will be explored in portfolios and investment strategies as well as business strategy decisions

Leadership 'edge' models

Servant leader models

- The servant leader sees encouragement and development as critical
- Relationships are naturally inclusive, empowering and devolve responsibility onto others
- There is a critical need for trust from leader to the follower and vice versa
- The servant leader avoids telling and coercion and uses soft power involving persuasion
- Servant leadership is associated with humble, wise and patient qualities
- The issues with this method are generally about speed, and problems with mediating dispersions in views

Dominant leadership models

- Charisma and confidence (associated with powerful and dominant personalities, often founders) are helpful to navigate uncertain landscapes and can produce high-level agreements and strong motivation
- Leaders who project a strong vision and a direction are generally seen positively. The editing down of ambiguity and uncertainty is sometimes done well, sometimes badly and disingenuously
- Autocratic decisions, often taken without consultation, expecting prompt adherence and no flexibility, can produce high velocity actions but produce problems with investment associates who want a say
- Further problems arise when the simplification is at odds with the unfolding reality

Nimble and transformational leadership models

- Being nimble is clearly important in the fast-changing circumstances that face investment organisations
- There is a need to defend the core, while pursuing appropriate changes
- Transformational leadership is all about initiating change and motivating others to do more than happens naturally through challenging assumptions and beliefs
- Transformational leadership tends to have more committed and satisfied followers where deeper levels of socialising have occurred, compelling visions have been used and associates are properly empowered

Culture blemishes (1)

Sub-cultures

- Big organisations will always have sub-cultures, there is cultural strength in having sub-cultures develop that reflect wider and deeper ownership of those cultures. But sub-cultures can act to weaken the forces of parent cultures.
- **Regional cultures:** global organisations must deal with regional differences (see the model) that are natural points of challenge to the parent culture
- **Front/ back office/ functional cultures:** investment organisations have to integrate the different contributions from front and back office individuals, with different skill-sets creating different types in the two groups, not easy to mediate cohesion between them
- **Political factions:** this is the preparedness of individuals or groups to create their own divisions and cabals reflective of the application of authoritarian power. Star cultures were examples of this culture in the past. They have very little opportunity to shine in future as organisations build out greater teamwork
- **Mergers:** in mergers, there will be attempts to blend cultures, but legacy cultures may well remain in the form of sub-cultures if the integration is not effective

Culture blemishes (2)

Culture blockages

- Investment organisations must deal with a lot of challenging context when interpreting the outcomes of investment decisions. This tends to produce: equivocal accountability (team decisions and teams change over time); limited controllability (high noise to signal) and significant hysteresis (outcomes emerge with a lag)
- **Blame culture:** a blame culture is one in which the results are all that matters (performance context is not considered) and bad results are punishable. This is a simpler culture than alternatives but certainly a weaker one over time
- **P&L culture:** profit has limited potential to motivate but it still is a rallying call for much of the industry. It does support a number of explicit incentives. Managing the P&L is not sustainable, nor ultimately controllable, and so a P&L culture blocks better behaviours and is ultimately a culture blemish
- **Silo culture:** the functional dimensions of the investment business create a focus on working within siloes and not achieving cross-function collaboration or making wider connections. Many of the biggest opportunities to innovate are thus missed

Time out again

- What's to be done? Investment organisations need to understand the bigger picture and finer details of culture
 - I & D and talent in particular
 - Transparency
 - Star cultures
 - Mergers and culture
- Leaders need to get out there more to manage these possibilities



Inclusion & diversity has a lot further to travel

Big opportunities for edge from diversity

- Inclusion and diversity (I&D) has two motivations – to build a fairer and better culture, and to build a stronger and better business model. These have overlaps and can be complementary
- Cognitive diversity is critical to the business case and particularly important to be achieved where problems to be solved are complex. The evidence points to quite a significant gap in cognitive diversity in the investment industry and an associated opportunity
- I&D is a classic ‘arms race’ – I&D strategies aim to come out ahead of competition, but there is no obvious stopping point. This involves managing the momentum or fatigue that arise in this dynamic, noisy trajectory
- While gender I&D is important, clearly other dimensions matter too. Cognitive diversity is best considered in terms of diversity in education and experience. Cultural diversity is better seen as promoting inclusion of all individuals where organisations respect the individual in their whole multi-faceted ‘self’
- The integration of corporate values with personal values produces ‘value’;
 - when the organisation respects its people it produces a positive EVP
 - when the organisation adopts purpose and CSR (corporate social responsibility) this produces a positive CVP and EVP



A culture of transparency should be positive

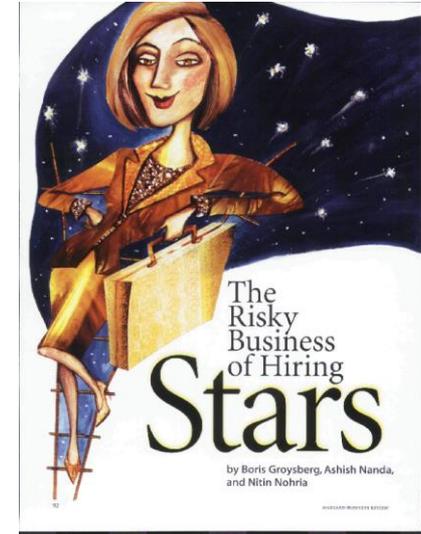
But issues about how much transparency

- The transparency thesis is through the improved understanding of the economic and behavioural machine that the investment industry tries to exploit – organisations' pursuit of this will reflect improved feedback through transparency
- Bridgewater is very much the exemplar here, with both an active profile in employing this culture, and a coherent narrative as to what is involved including their innovative approach to decisions including weightings on 'believability'
- There are challenges to their success: first, they lose some people early, but keep their advocates after experiencing the culture; second, the energy focused on transparency leaves other cultural areas potentially under-powered; we continue to believe that culture is not a respecter of excess
- There are other example organisation that are heavily invested in building a transparent feedback organisation but not full radical transparency
- The tough questions are how this works and will it be sustainable. The critical requirement is for highly emotionally resilient people that are engaged and committed, but the associated consequences include less need for emotional intelligence and less classic diversity and inclusion
- Outcomes will reflect certain dimensions around
 - Emotional intelligence* – the ability to identify and respond to emotional cues;
 - Emotional resilience* – the ability to take set-backs and criticisms as opportunities to bounce back and grow
 - Employee engagement* – the attribute of employees committing energy and time to their employer and their colleagues while staying focused on agreed goals and personal accountability

Star cultures in decline

But talent remains critical to investment organisations

- The key attributes of extreme talent remain constant:
 - Values, motivation, integrity, commitment and courage
 - Intellect – vision and worldview, observation and interpretation
 - Awareness – system-wide multi-strand thinking and acting
 - Decision-making – emotion, resilience
 - Communications – match the message to the moment
- But the organisational setting for talent has changed, requiring different treatment. First, reliance on a single individual for portfolio construction does not seem robust, with too much concentration risk and limited diversity. Second, the investment propositions from the star investors have had some sharp reversals
- The leverage from outstanding stars in investment organisations remains huge. The rewards to talent are scalable and can be leveraged through globalisation and technology in new and different ways. Extreme talent has opportunities and large leverage in both business leadership (asset gathering and organisational quality) and investment leadership (investment results)
- Growing stars is generally robust and value adding, hiring stars is generally not (see Groysberg, HBR).
- Helping stars to develop is critical to their retention, but few organisations have the development assiduousness to provide the degree of support that is needed



Mergers create big issues for culture

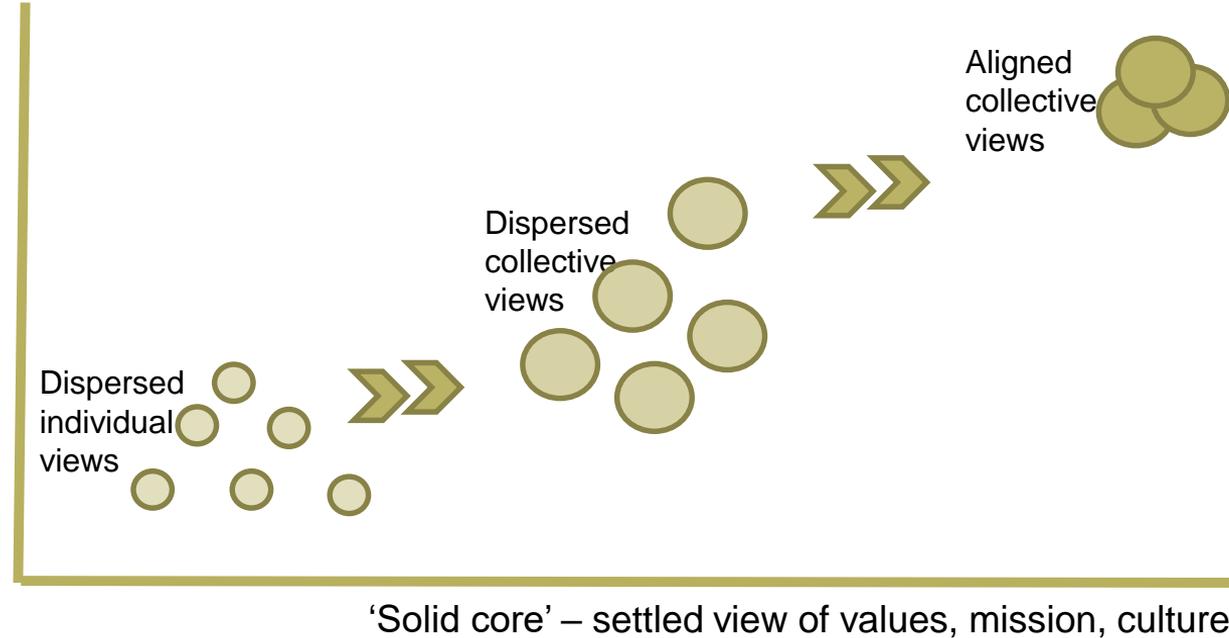
Set-backs probable, J-curves possible

- A merger provides a unique opportunity to transform a newly combined organisation, to shape its culture in line with strategic priorities. A target culture, recognising the inherited cultural differences, can be developed and embedded
- By establishing a clear understanding of the existing company cultures, leaders can use a common language to set the cultural direction for a high-performing new company. An aligned leadership can be role models for the specific behaviours needed and manage a clear, coherent integration program which can be tracked and adapted as necessary
- But in practice the investment / client propositions from a merger are generally settled in the business results areas reflecting the owners' value proposition. The client and employee value propositions are, at best, collateral considerations
- Mergers create some expansion of client delivery benefits, but do not generally support the cultural propositions for either better personal motivation or teamwork
- Post-merger narratives are difficult to align, communications will diverge without big efforts to produce a single narrative. The merger lacks the history to create compelling 'origin' stories
- Post-merger 'gaps' are likely (where the merger directly or indirectly produces dysfunctional performance). These may not necessarily be easy to spot. Surveys can help to reveal gaps in culture or organisational effectiveness, by reviewing EVP and CVP. But sub-cultures can remain and are often allowed to embed themselves
- Post-merger, it is reasonable to expect culture integration to follow a 3- to 5-year J-curve disruption, before a coherent and effective culture is created

Quest for a sharper image and a higher purpose quotient

Investment organisations more committed to finding 'purpose' and travelling towards it

'Changing context' – settled view of beliefs, vision and strategy



Principles

- Defend the core, challenge the context
- Settled views that have been socialised, aligned and agreed over time
- 'Purpose' reflects mission and vision and adds a third dimension
- Use the purpose quotient ('PQ') as a measure that of this alongside the culture dashboard – see next 2 slides

Purpose quotient score - illustration

Example score is 6/8

- Quick indicative scoring of organisational purpose
- Sum the eight sub-scores
- Completed for live example organisation which scores well
- Most organisations score under 4/8

Key elements supporting organisational purpose			Yes (+1)	Some (+1/2)	No (0)
Solid core	1	Do personal values in the organisation align well with corporate values and the target culture?	1		
	2	Is the mission of the organisation clearly expressed and understood?	1		
	3	Is the culture well-articulated by leadership and highly appreciated by associates?	1		
Changing context	4	Are the beliefs and strategy well lined up? Is the strategy supported by accurate beliefs?		1/2	
	5	Is the vision clearly expressed and realistic?		1/2	
	6	Is the strategy clearly argued, expressed and acted upon? Has it been well-socialised?	1		
Purpose	7	Is the organisation's purpose expansive (involving wider stakeholders) and exciting (involving inspiring narrative)?		1/2	
	8	Is the organisation's purpose meaningful and impactful to its people (involving a compelling vision)?		1/2	
Total			6/8		

Culture dashboard - illustration

Culture Effectiveness Factors		Rating	Comments on attributes							Culture Edge Factors		Rating
Client-centric	AA	Purpose-driven Attention to the sponsor's and stakeholders expectations High trust level from the Crown and the Treasury Strong sense of public responsibility Understanding of social license to operate								Edge	D & I	
People-centric	AAA	Emphasis on performance development Employees are prepared to adapt and be stretched Individual autonomy and responsibility is respected Strong listening and empathy Trust exists at various levels Collaboration is strong Employees feel belonging									Transparency	
Positive leadership	AA	Servant leadership is practised Power is well distributed Progress reflects delivering outcomes and helping others Leaders act as stewards of culture Leadership is engaging, trustworthy and trusting Leadership is inclusive Employees have a say									Innovation	
High performance	AA	Excellent thinking and process are emphasised Recruitment has a high bar Investment performance revered Accountability for outcomes Diversity is used to improve decisions Creativity and innovation are encouraged Information and knowledge are shared								Staying power	Long-term	Y
Integrity and respect	AA	High ethical standards are practised Behaviours aligned to values are highly valued Work life integration is valued Colleagues are liked and appreciated Colleagues are respected as individuals									Risk culture	
Diversity & Inclusion – integrated score	A	Policies on diversity and inclusion are practised and respected The organisation recognises the principle of doing the right thing in dilemma situations Public commitments to diversity are upheld and reported on								Agile		
Overall culture effectiveness	AA		AAA	AA	A	BBB	BB	B	CCC & below	Leadership	Servant	Y
Overall culture engagement	Level2		Level 3	Level 2	Level 1						Dominant	
Client value proposition	AA									Blemishes	Nimble	Y
Employee value proposition	AA										P & L	
											Blame	
										Silo		
										Sub-cultures	Functional	Y
											Factional	
										Merger		

The ways culture can be changed and managed

Top down (formal) systems	Strategy	<ul style="list-style-type: none"> Vision, strategy and culture in synch Strategy process engagement
	Goals	<ul style="list-style-type: none"> Culture goals agreed; culture measured and assessed KPI's can be designed to deliver on culture initiatives Integrated reporting framework allows for cultural factors
	Hiring	<ul style="list-style-type: none"> Align the mission and vision statements with the employer brand Hiring needs improved metrics capturing values and motivational drivers
Bottom up systems	Development	<ul style="list-style-type: none"> Leadership development programs Use of a portal for cultural things
	Performance reviews	<ul style="list-style-type: none"> Performance reviews should reference values and behavioural norms Pay-for-performance should be more reflective of culture carrying
	Reward	<ul style="list-style-type: none"> Increasing the weighting of culture in the performance and pay reviews
Soft (informal) systems and channels	Leader behaviours	<ul style="list-style-type: none"> Leaders exemplify cultural norms Leaders are studied for cultural and behavioural signals
	Communications	<ul style="list-style-type: none"> Leadership talks more heavily on the current/destination culture in town-halls, etc Culture messages need preparation (eg Netflix-type documents)
	Uses of work spaces, events, artefacts and stories	<ul style="list-style-type: none"> Posters, screen-savers Employee experience Exemplification of norms from the past

Culture and leadership in summary

- Institutional funds, suitably configured, are an immense force for promoting the well-being and fulfilment of society
- We have the technical elements of our industry covered
- We now need some human bits: the leadership and vision to produce a great culture; the measures to manage this



'I came to see in my time at IBM that culture isn't just one aspect of the game, it is the game'. Lou Gerstner

Contact details, references and limitations of reliance

Research sources

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TAI: *The Asset Manager of Tomorrow; The Asset Owner of Tomorrow*

(2017, 2018)

Towers Watson: *Search for Alpha* (2007)



Research exemplars

The author is indebted to the following organisations

Asset Managers	Asset Owners
AMP	ADIA
Baillie Gifford	Barclays
BlackRock	British Telecom PS
Coronation	CalPERS
Fidelity	Future Fund
First State	New Zealand Super Fund
Investec	PGGM
MFS	Railpen
Schroders	Royal Mail PS
SSgA	TCorp
Wellington	Wellcome Trust

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Contact Details

Tim Hodgson, +44 1737 284822

tim.hodgson@willistowerswatson.com