

# THE PURPOSE = IMPERATIVE

Too many investment professionals are "addicted to winning," and it's a problem for them and their clients

By Nathan Jaye, CFA

Purpose and mindset. These aren't the first words we think of to describe the investment industry, but according to Jim Ware, CFA, Michael Falk, CFA, and Keith Robinson, partners at Focus Consulting Group, they should be. In their new book *Money, Meaning, and Mindset: Radical Reform for the Investment Industry*, the three argue that diminishing margins will force industry leaders to include more purposeful values. In this interview, the Focus team discusses phi, the purpose-driven success metric developed by CFA Institute and State Street [see "Why Phi?" in the March 2017 issue of CFA Institute Magazine for more details], happiness as a goal for all participants, spiral dynamics as a guide to team building, and the emergence and importance of millennials in the industry.

#### What's the message of your book?

**WARE:** The investment industry is changing dramatically. Alpha is shrinking—it's harder and harder to find, and trust in the industry is low (as measured by the Edelman Trust Barometer). We hear from our clients that there is anxiety about "Well, what do we do in this new environment?" We say, in order to succeed, firms must define a compelling purpose.

We need to understand the meaning of our work. Why are we doing this work? In order to attract and maintain good people, we need to answer this question. So we connected with CFA

Institute and Suzanne Duncan at State Street on their paper "Discovering Phi," where they really go after this notion of purpose as a motivator for investment professionals.

#### How does phi relate to the industry now?

**WARE:** "Phi" is the shorthand for purpose, habits, and incentives. What Suzanne was interested in discovering is whether motivating professional investors links to success and results. She found that it does. She has developed what she calls the "phi-agnostic" to see whether a firm has high levels of purpose or not.

Once her results are in, Focus Consulting Group will work with various firms on their phi measurement. Specifically, we're trying to build more purpose into the organization. We're working with a couple of firms now. To put it simply, investment firms have been characterized by a lot of passion but much less purpose.

The nature of investment work is fun and exciting. Investment professionals love the work, but often they can't answer the questions "Why do you love it? Why is it so important?" They're fascinated by the markets, but they don't associate that this is important work. This makes a huge difference in people's lives.

**FALK:** Our business deals with many real personal impacts beyond sheer finance. It relates to happiness and well-being. Well-being is much more than the ability to pay a bill—although, if

you can't, that will negatively impact well-being. But well-being also has social aspects, it has psychological aspects, it has medical aspects, beyond just finance.

### You link Maslow's hierarchy to phi. How?

**WARE:** The link is clear to us. As Michael said, if you can't pay your bills, that's what Abraham Maslow calls a deficiency need. You need enough money; you need family and friends. You need to feel like you matter, that you have some skillsets—that you can measure up. We have anxiety if we don't meet these needs of security and belonging and mastery. But they aren't *happiness*—we don't get lasting joy out of just paying our bills.

The top of the triangle is what Maslow called growth needs. Those are the ones we're addressing in the book. These are things like purpose and service and making a difference for the common good of all people. When people have met their basic needs, they start to look naturally toward giving back and toward making a contribution.

So, purpose comes in naturally in a person's life, unless they're stunted or addicted in some way. I think a lot of the typical investment mindset is kind of addicted to winning and to making more and more money in a way that takes them off the natural path that Maslow outlined.

**FALK:** Keith and I were working with a team on a rewards assignment. One of the team members came from a big hedge fund to join this long-only shop. He said, "What I'm making here today is maybe 1% of what I used to make, but the time with my family and the ability to have a life outside are so worthwhile."



Michael Falk, CFA

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When he was leaving his old firm, he sent an email around to say goodbye. He got responses like "How are you able to walk away? I wish I were you. I could never do this myself." There was a clear message of addiction, and as much as they said, "We would love to be able to trade places with you," they were admitting they weren't able to.

**WARE:** The investment industry is really ripe for change. Millennials are ahead of the game. They're already thinking about purpose. And the boomers in the investment world are aging into a place where many have met their needs and would like to give back. That's one reason we're writing a book. We're at that point where we'd like to do something

meaningful for the industry, and I think writing this book is meaningful. So you have these two giant parts of the population—boomers and millennials—who are both heading toward the top of Maslow's hierarchy.

### Why is embracing new mindsets key?

**WARE:** Clare Graves developed his work on spiral dynamics decades ago. Graves thought that societies and cultures emerge based on survival. He traced it all the way back to hunters and gatherers, which he called "purple" culture. After that, "red" culture is kind of the strong man, the big chieftain. Saddam Hussein is an example of a red leader. We still see that around the world, where there is a big strong man who runs everything and it's like a giant tribe.

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Jim Ware, CFA

Out of red came the "blue" culture, a society in which the rule of law is in place. There's more of a sense of right and wrong. In the investment world, Vanguard is a clear example of a blue culture. Jack Bogle had a vision for index funds, and if you visit the firm, there's a clear sense of cult-like loyalty to the indexing principle. Blue culture firms run in a very methodical way. There's a lot of loyalty.

The "orange" culture grew out of blue. Orange is more ambitious, more individualistic and achievement oriented. There's a lot of alpha energy in the room. For many years, orange has ruled the roost in our industry. But the danger is that often puts foxes in charge of the hen house, because orange is more interested in winning. We've seen some of them get to the point of winning at any cost.

Now what's emerging is more of a "green" culture, which says, "Well, let's care about the environment. Let's care about other people. Let's care about purpose. Let's care about making the world a better place." That is in contrast to orange. All the growth of interest in impact investing and ESG is really green culture. I think millennials are more green than orange, although there is some mix.

### How are millennials changing the game?

**ROBINSON:** I think millennials will have a big impact on our industry. They think in terms that are more green; it's more about purpose aligned with intent. Also, millennials are the largest generation ever to enter the workforce. We're seeing firms that are over 50% millennials. Leadership is struggling to keep them engaged and motivated. I think

millennials by sheer force of numbers are going to change the way our industry thinks.

### **Do managers understand the millennials?**

**ROBINSON:** Many managers don't. They complain about what I think is actually a competitive advantage. There are the usual jokes about millennials: Everybody gets a trophy, and they're entitled, and they're not loyal. We find it to be quite the opposite. If you understand what motivates a millennial, they're quite loyal and willing to work extraordinarily hard. They actually have a better sense of where the industry will be going in the future.

We think margins are going to shrink to a more normalized level of profitability, and we think millennials will be OK with that, provided there are other reward factors in play. Factors like autonomy, time, development, and doing something that is purposeful in society—not just making a pile of money.

### **Is happiness a goal of all participants?**

**WARE:** Our view is that we have to take seriously the idea that everybody wants to be happy. That's the common ground. When you're dealing with investment clients, that's where you have to bring your attention. What makes for the well-being or the happiness of the client?

We think there's too much abstraction. There are too many complex products that don't really address the basic needs of clients, like paying for college education and retiring in a decent way. That's what this big engine of investment should be aiming toward, not inventing increasingly complex financial instruments, like the ones that got us in trouble in 2008.

### **Can firm culture shift to address happiness?**

**WARE:** It's already happening. Millennials are pouring into the workforce, and many firms will get a wake-up call about culture. It is changing right under their noses. We would say that culture is driven by three basic factors: purpose, trust, and values.

Firms can develop an organizing principle or purpose that causes people to get excited and feel like they're making a difference—to be fully invested because it's meaningful work. A trusting environment lets people feel we have one another's backs, we care about one another, we are aligned properly in our incentives.

We work with a firm in Florida that's adopted a results-only work environment. They leave you free to go about your work. They're not micromanaging, they're not looking over your shoulder, they're not asking why you weren't at your desk at nine o'clock this morning. They simply give you your assignments and then you're free to do them. You can imagine that the millennials just love that. They love the freedom in that. And it's working. The firm has terrific results and tremendous loyalty.

### **How are values in the industry shifting?**

**FALK:** One of the classic values tied to orange culture is

excellence. It's central to the industry. When you think about excellence in terms of orange professionals, it makes sense—getting better and better at their craft. But what does excellence look like from the client's perspective? Excellence is not about beating the S&P. It's about funding a college education for their child.

So, we're shifting excellence from the orange perspective, which is: win, beat the index. We're re-framing excellence as giving clients the peace of mind that they want and the ability to pay for the real needs or wants they have.

**ROBINSON:** Another thing to highlight is on development and mastery. As Dan Pink has shown, what motivates knowledge workers is the ability to master your craft. I think that's important on two levels. One will be for the millennial generation. They've redefined what we mean by career planning. In a typical hierarchy organization, that's defined as getting to the next level—vice president and executive vice president and so on. But millennials are defining it as the accumulation of skills in something that you love.

The development of skillsets will be something that organizations will need to take more and more seriously. One, a shift in generations will drive it. Two, as alpha becomes more and more scarce, people are going to need to learn new skills to address the things that clients want and need. These aren't skills that are necessarily inherent in a classic portfolio manager or analyst, because that's not how they were trained. So, development may become a more desirable reward than just cash.

### **What's crucial about the "yellow" mindset?**

**WARE:** Yellow is an emerging mindset. Yellow culture lives at the top of Maslow's hierarchy. Yellow people have met their deficiency needs and are aware of higher-growth needs. They are people who have overcome a lot of basic fears.

Fears are driven mainly by security, approval, and control—typically, when our security or approval or control is threatened. Yellow leaders have mastered a lot of that. It's not that they walk on water and have no fears. But they're primarily purpose driven. They're not fearful that "somebody will have more money than I do." They're not as ego driven.

The top of Maslow's hierarchy is what we call our better self, our higher self. That's what is driving yellow leaders. One of their important qualities is the ability to see the value of blue, green, and orange. They appreciate them. They say each one of them brings value to an organization. Abraham Lincoln would have been a yellow leader.

Yellow is an atypical leader, but we're starting to [see] more of them. Our purpose at Focus Consulting is to help encourage them. When we coach executives, we encourage them to operate from their higher self rather than their ego self.

**ROBINSON:** That people of different types are able to co-exist because they all have a valuable place is the skill of appreciation. I can appreciate the value that both orange and green types bring. Not only can I appreciate them internally, but I can appreciate them outwardly and let them

know they're valued. The reality is appreciation is probably one of the least-used skills in our industry. We believe that needs to change.

### How do we encourage appreciation?

**ROBINSON:** Partly by teaching it as a skill. Most people think of appreciation as soft leadership. They think, "If I'm that way, then I'm vulnerable." What we say is "Well, vulnera-



Keith Robinson

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bility is good, and let's also teach the skill of appreciation." It's amazing to me to watch a leader who puts a mind to actually appreciating people. The more you practice any type of skill, the better you get and the easier it becomes.

**FALK:** Keep in mind that each of the types can evolve. Someone may be 99% orange at one point in their life. But they may only be 50% orange at a later point in their life. Individuals can evolve within their own types.

**WARE:** Leaders get it quickly. We explain that there is a higher, more purpose-driven self, and there is also this lower ego. And by the way, ego's not bad. Ego is what we all used to survive when we were young. Ego helped us devise strategies like sucking up—to avoid getting clobbered. Or, later in life, fired.

We point out to leaders that as they age and have their needs met, they have the opportunity to think more about their higher self. They can resist operating from what we call *under the line*, which is the ego territory of fearfulness. Instead, they can operate *above the line*. That's the appreciative, trusting, compassionate self that cares about the greater good, that cares about the basic humanity of people and wants to do good things.

Any leader you talk to has their good and bad days. They have days when they really operate from their higher self. It's not hard to get these bright people to see that destination. Then the goal becomes living more and more from that higher self. That's been my experience. If you lay out the game plan, leaders can see the benefits of moving into that higher self.

**ROBINSON:** In this industry, if you can put data to an idea, people will pay attention to it. One thing that we've been able to do is help people see how they're perceived, by using a [360-degree feedback assessment] or other tool. Maybe they're not playing at their higher self. When they see the data, they pay attention and they lean in.

### What's the ideal team of the future?

**WARE:** We like teams with good cognitive diversity. That means you have people who are orange: people who are detail oriented and process driven and love to achieve and move ahead. You also have green, who is more collaborative. They like to be the glue in the team that holds it together. Greens are more naturally appreciative, so they bring positive energy to the team.

Then you have a yellow leader, who knows how to get the best out of those people, who hopefully is encouraging each of them to mature. All of us, regardless of our type, mature. We can all mature to become less fearful, less ego-driven, and more higher-self driven. That's a goal for any human being.

Yellow leadership is important, because green, blue, and orange don't always see the benefits of other types. Take someone like Ralph Nader, who's green. He thinks business is bad. He thinks that it's the scourge of the world. That's not really useful, ultimately. You want leaders who say, "Every one of these types can bring something positive and beneficial. How do we use them effectively so that they can mature and contribute, so that the clients win, and the shareholders win, and all the parties win?"

We use a tool called the Enneagram to look at personality types. The Enneagram lays out pretty clearly in blue, green, and orange. There's nine Enneagram types, and you can clearly put them in one of those three colors.

**FALK:** There's really no difference here between a basketball team or any sports team. If you think about the different positions on the court, you're thinking about optimizing the roles given the talents of the individuals. This is exactly the same thing. You want some deep-data, craft people. You want some more macro-type people. Then you need a way to corral all those talents. That's a yellow leader.

**WARE:** We're from Chicago, so we saw this with Phil Jackson. He did a marvelous job with the six-time world champion Bulls. He had all kinds of different personalities on that team, but he found a way to work with them to get six championships. I mean, Dennis Rodman was no easy guy to coach.

### How quickly can the industry change?

**WARE:** It won't happen in a year or two years or three years. All of us could be retired by the time this is fully in place. But it's a vision. It's a vision for what the future could look like, and it's our view of what a better industry would look like. We think the industry would benefit. That means all stakeholders would benefit if these ideas were taken seriously. We do think that what we're suggesting is pretty radical reform.

That's our goal. We take seriously the idea we're trying to change the industry and the planet—one person, one leader at a time.

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