Investment Management in the New Normal

By Jim Ware, CFA®, Keith Robinson, and Michael Falk, CFA®

Our consulting work with investment firms reveals an urgency around defining and competing in the “new normal” environment. Increased competition and savvy clients demand a new level of excellence from investment firms. Most investment firms (around 97 percent) acknowledge that firm culture is important to meeting this challenge.1 Not surprisingly, one of the core values identified by investment firms, as shown below, is “excellence/continuous improvement.”

Figure 1 shows the top four values of investment firms as revealed by our culture research, which is based on data from more than 200 firms. As you might expect, “clients” and “ethics/integrity” come first and second in the survey data. The third top-rated value is “teamwork.” And just behind the “big three” comes “excellence.” The Xs in figure 1 represent the employees who understand and play by the cultural norms. The Y represents an employee whose performance is lagging. Perhaps Y is a portfolio manager whose investment style is out of favor, or a sales/marketing person who has missed some sales opportunities. A firm that takes excellence seriously would address these situations. That might look like mentoring or coaching for Y, or perhaps providing other resources that would correct the underperformance. The point is that top firms will track and react to situations where employees are falling short.

Indeed, our Focus Consulting Group (FCG) research on top firms indicates that this is the case. FCG has identified eight firms dubbed the “Focus Elite” that are exemplary with regard to leadership and culture.2 These firms are characterized by cohesive leadership teams (with high levels of respect and trust), aligned values, strong results, and very little “sludge” (behaviors that negatively impact performance, such as gossip and blame). With regard to the value of excellence/continuous improvement, the Focus Elite are significantly stronger than average.
Specifically, when employees of the Focus Elite are asked, “What values does your firm actually rally around and practice?” more than one-third, or 36 percent, respond with excellence/continuous improvement. The industry average is fully 11 percentage points lower (25 percent).

In our view the real question becomes: “Is the bar being raised for all the firm’s employees?” In other words, do the employees represented by the black Xs in figure 1, who are all comfortably in the excellence circle, need to improve each year to remain in the excellence circle, or can they coast? Frequently, senior leaders ask us about the dangers of complacency, and rightly so. Figure 2 shows the typical progression of performance for a professional.

Ericsson (2009, 412) notes that during the first 10 years of a professional’s career, the performance steadily improves:

Most findings supporting the necessity of vast experience in attaining expert performance come from investigators who have shown that everyone, even the most talented individuals, need to invest 10 years of active engagement in a domain (10-year rule) to become an expert.

After that time period the performance levels off and even declines a bit. The point here is that complacency is normal. Unless we consciously put our attention on continuously improving, we will most likely level off and not raise our performance. So the first important takeaway for readers is that we have already—most of us—reached our plateau of excellence. We are already faced with the challenge of how to improve. Ericsson (2009, 414) states it this way:

The key challenge to motivated performers is to identify aspects of performance that can be improved within a reasonable time and the associated training activity that will incrementally increase that aspect as well as the overall performance.

Many readers may pass over this quote without hitting on what we think is the critical word: motivated. Nearly every investment professional we question responds appropriately: “Yes, I want to continuously improve!” But the deeper question is: “Really? Even if it means hard work?” An honest chief operating officer recently told us: “I’m 52 years old. I don’t know how much I want to improve myself.” This sober admission came after he had received a 360 review and we had counseled him about the rigorous development plan that would move him to the next level.

**Deliberate Practice**

Colvin (2010, 119) describes the hard work involved in moving from one level of performance to another:

The factor that seems to explain the most about great performance is something the researchers call deliberate practice. Deliberate practice is hard. It hurts.

And herein lies the problem. There’s no free lunch. If you want to continuously raise your game—which the new normal seems to call for—then you have to design a plan of deliberate practice. What specifically will you do each day to improve? Ericsson (2009, 416) has this to say:

To engage in deliberate practice requires that the performers need to work on tasks that are initially outside their current realm of reliable performance. Furthermore, it must be possible to improve on the targeted characteristic within a limited number of hours of practice or else the performer will become discouraged.

**Figure 3: The Stretch Zone**

Figure 3 illustrates the territory for “reliable performance” versus the stretch necessary in deliberate practice.

If we are unwilling to leave the comfort zone—the middle circle—then we will never stretch into what Ericsson calls deliberate practice. Note that it is unproductive to stretch into the panic zone. Designing the proper deliberate practice requires an intelligent strategy and often a coach who understands the skills involved.

In the book *Mindset*, Dweck (2007, 18) describes two basic approaches to life’s challenges: fixed and growth. Fixed-mindset people protect their self-images and egos by resting on their past performances, refusing to take chances or look foolish. In their view, the trade-off between risking-and-improving versus staying-put is not worth it. The hard work involved in risking makes that path even less attractive. One of our favorite articles describing the challenge of continuous learning is “Teaching Smart People How to Learn,” by Argyris (1991). In this article, the author states that 15 years of studying top management consultants revealed that they were delighted to help clients continuously improve, but

[1]he moment the quest for continuous improvement turned to the professionals’ OWN performance, something went wrong ... They projected the blame for any problems away from themselves and onto what they said were unclear goals, insensitive and unfair leaders, and stupid clients.

By contrast growth-mindset people embrace the challenge and hard work because they are deeply committed to learning and improving. They realize that learning involves making mistakes and possibly looking foolish, but the goal of higher performance is worth it. Figure 4 illustrates and contrasts the two different mindsets.

With this deeper understanding of what it means to continuously improve, the question arises again: Are you willing to adopt a growth mindset and find the deliberate
practices that will allow you to improve? In our view, an honest answer of “no” carries no shame. Many people are delivering plenty of value in their current roles precisely because they have been doing the work for many years.

But if the honest answer to the question of improvement is “yes,” then a solid understanding of the territory is useful. Colvin (2010, 85) tells us that we must come to terms with and remind ourselves daily of the following:

In field after field, when it comes to centrally important skills—stockbrokers recommending stocks, parole officers predicting recidivism, college admissions officials judging applicants—people with lots of experience were no better at their jobs than those with less experience.

We can’t simply rest on our experience. Autopilot does not deliver continuous improvement. The only solution is deliberate practice, which Colvin (2010, 167) describes as the following:

Deliberate practice is characterized by several elements, each worth examining. It is activity designed specifically to improve performance, often with a teacher’s help; it can be repeated a lot; feedback on results is continuously available; it’s highly demanding mentally, whether the activity is purely intellectual, such as chess or business-related activities, or heavily physical, such as sports; and it isn’t much fun.

So even if you and your colleagues are truly committed to learning and improving, the problem remains, as Colvin (2010, 34) describes:

Most people do not know where to start or how to proceed. Expertise, as the formula goes, requires going from unconscious incompetence (i.e. unaware there is even a problem) to conscious incompetence (i.e. aware of the problem but no skills) to conscious competence (i.e. skillful with full attention) to unconscious competence (i.e. skillful on autopilot, like driving a car). A coach provides outside eyes and ears, and makes you aware of where you’re falling short.

Most professionals who are serious about improving have developed effective feedback systems so that they can find out immediately when they are off course. Annual reviews don’t help much. Objective and skilled coaches/teachers must be available to help design the deliberate practice regimen and then provide real-time feedback.

**Conclusion**

Investment professionals face an increasingly challenging landscape. Most of them realize this and proclaim wisely that they must embrace excellence and continuous improvement as a core value for themselves and the firm. But a deeper examination of continuous improvement reveals that it requires conscious attention; it won’t happen naturally. Most investment professionals are at a loss when asked, “What is your plan for improvement?” This article suggests that the first step is honest self-reflection about your willingness to put in the conscious effort to design and execute a plan. The second step would be to understand the notion of “deliberate practice.” In our experience, the most efficient way to make progress is to enlist the help of a mentor or coach who understands deliberate practice and will help you design your program and carry it out. A key element to execution is accurate and real-time feedback.

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__Continued on page 51__
INVESTMENT MANAGEMENT IN THE NEW NORMAL
Continued from page 16

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Endnotes
1. Focus Consulting Group (FCG) has collected survey data from thousands of investment professionals around the world. The question put to them is, “Is culture important to your firm’s success?” A five-point Likert scale is used: 1 = strongly disagree to 5 = strongly agree.
2. For more on the Focus Elite, see Ware et al. (2013).
3. In a 360 review, a manager and several peers inquire into an employee’s team work, communication, leadership, and management skills, then comment and rate the employee’s professional skills and team impact. The goal is to provide feedback that helps the employee improve and focus development. A good 360 review combines feedback with the personal and professional goals of the employee, leading to a road map for self-development. Source: http://www.surveymoz.com/survey-blog/guide-to-360-reviews-what-is-a-360-how-do-you-administer-360-feedback/.

References

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