
Louisville CFA

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Culture as a Strategic Advantage

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The Focus Consulting Group, Inc.

“Helping investment leaders leverage human capital worldwide.”

Jim Ware, CFA



Services offered:

- Foundational offsites
- Succession planning
- Compensation & incentive structures
- Culture analysis & management
- Investment philosophy and process assessment
- Applied behavioral finance
- Leadership assessments
- Onboarding new leaders
- Leadership development & coaching
- Enhanced decision making
- Team assessment & dynamics
- Firm integration: investments with marketing/distribution with operations
- M&A culture analysis and integration consultation/implementation

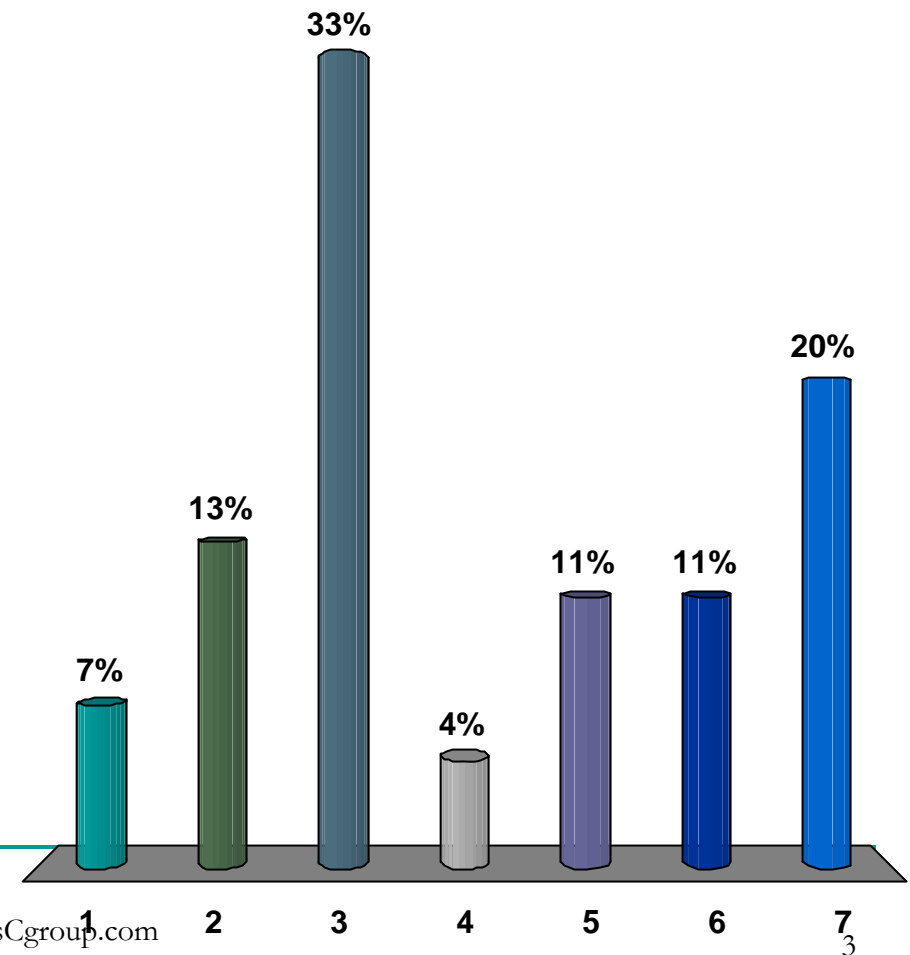
Jim Ware is the founder of Focus Consulting Group, a firm that helps financial leaders understand and leverage their firm's human capital for competitive advantage. He has written three books on leadership and culture in the investment industry, all in the Wiley Financial Series. The most recent book is entitled, "High Performing Investment Teams," (February, 2006).

Mr. Ware is a Chartered Financial Analyst with 20 years experience as a research analyst, portfolio manager, and director of buy-side investment operations. He has taught investments at the Kellogg Graduate School of Management and written articles for various trade publications including the Financial Analysts Journal. He is on the advisory staff for Institutional Investor magazine and the CFA Board of Regents. His books have been reviewed in The Wall Street Journal, Pensions & Investments, Forbes, and Canada's *Globe and Mail*. He has presented at over 100 CFA events in 14 countries and writes a quarterly column for their website: "Firm Success: Leading the Investment Firm." Jim has appeared on Fox News, Canada's "Report on Business" and other news shows.

His educational background includes a Masters in Business from the University of Chicago and a degree in philosophy from Williams College, where he graduated Phi Beta Kappa.

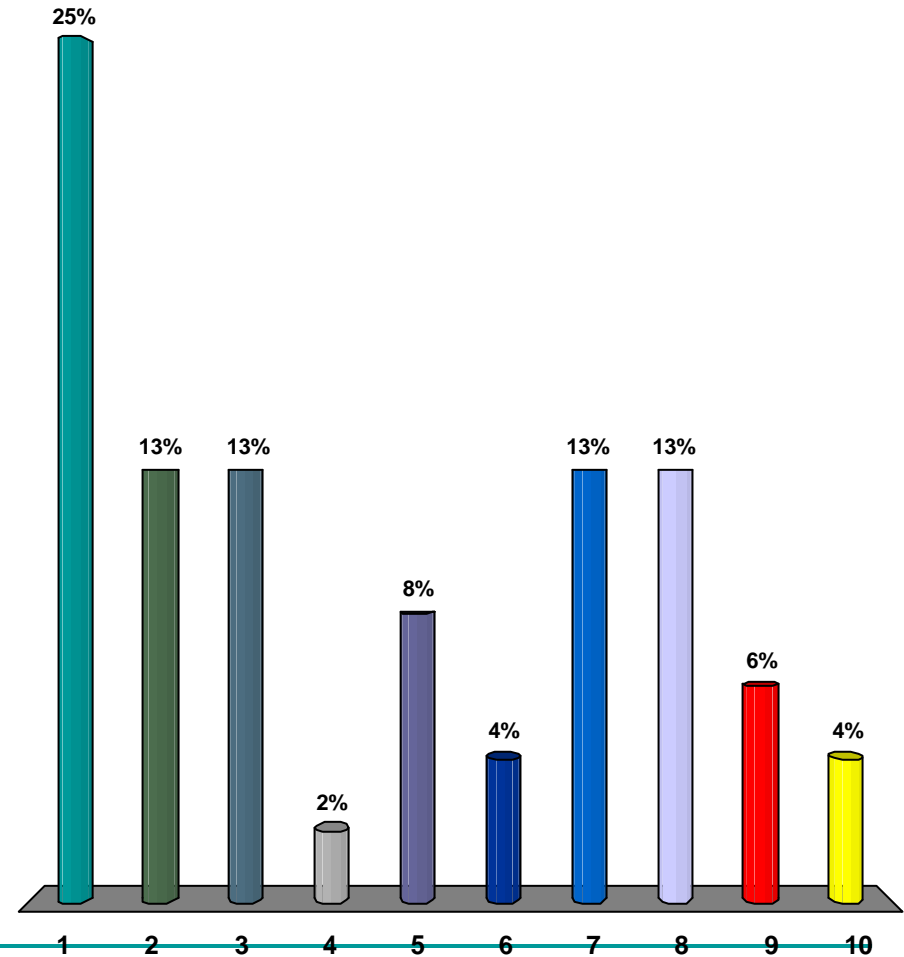
Which one of these roles best describes me?

1. Research analyst
2. Financial advisor
3. Portfolio manager
4. Client service/marketing
5. Operations
6. Student
7. other



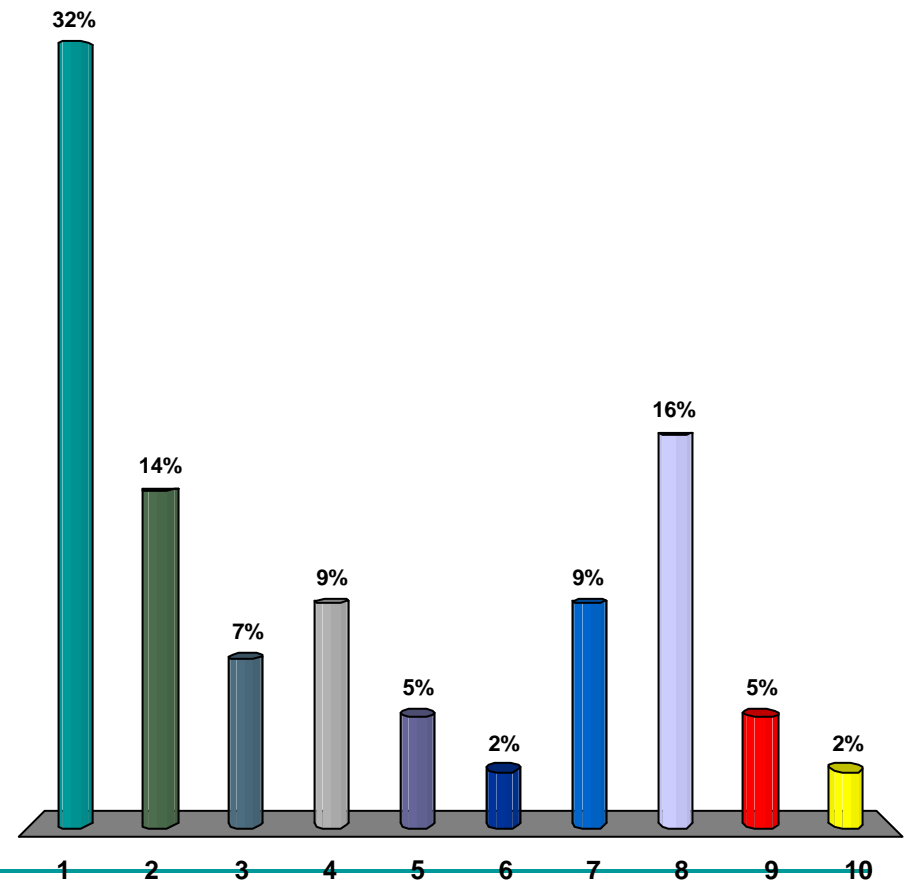
What is your firm's competitive advantage?

1. Great people
2. Superior processes
3. Unique Investment philosophy
4. Work ethic
5. Creativity
6. Independent
7. Owner mentality
8. Ethical/Trustworthy
9. Leading edge IT
10. Focused, limited products



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3 Key Measures of Competitive Advantage

1. Trust: building it and maintaining it
2. Culture: defining and living it
3. Management: creating excellent teams

“What you can measure, you can manage.”

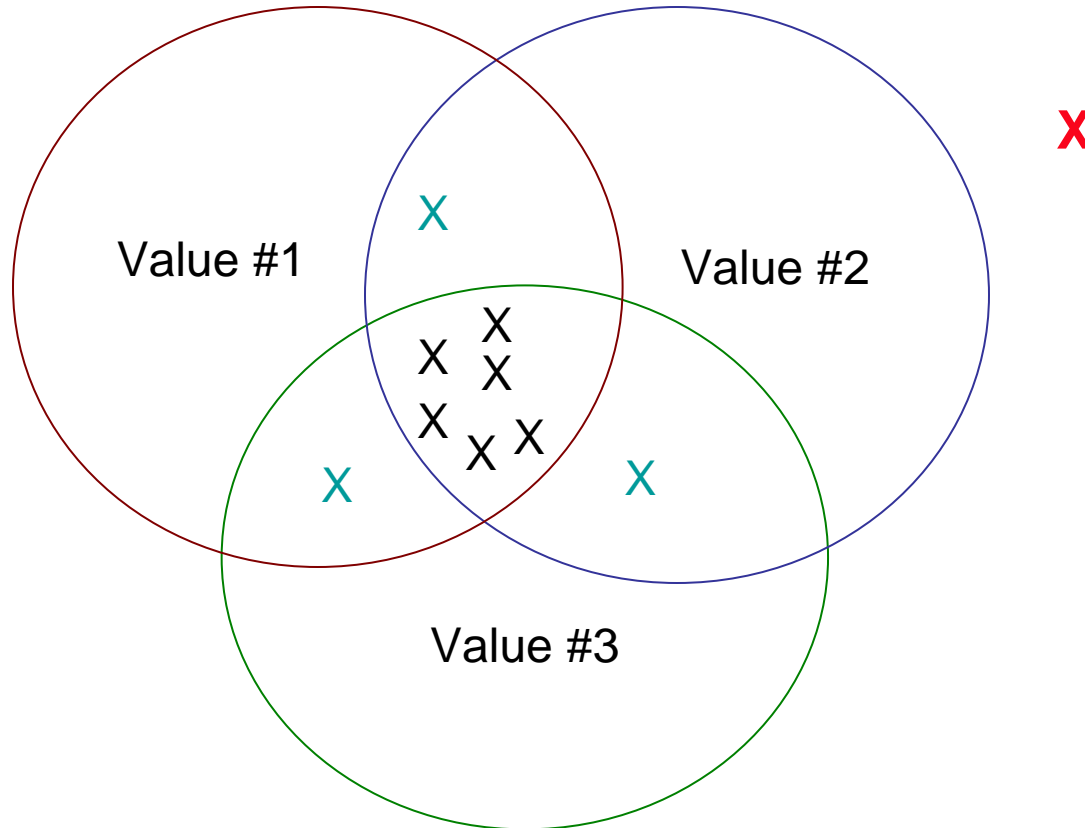
Overview of Culture

- What is it? Defining Culture
- Why is it important? Benefits of Strong Culture
- How do you Measure and Manage it? Metrics
 - Values
 - Strategies

Culture: The beliefs, values and behaviors that differentiate one organization from another.

Measures:
Perfect = 100%

High = 72%
Average = 40%
Low = 18%



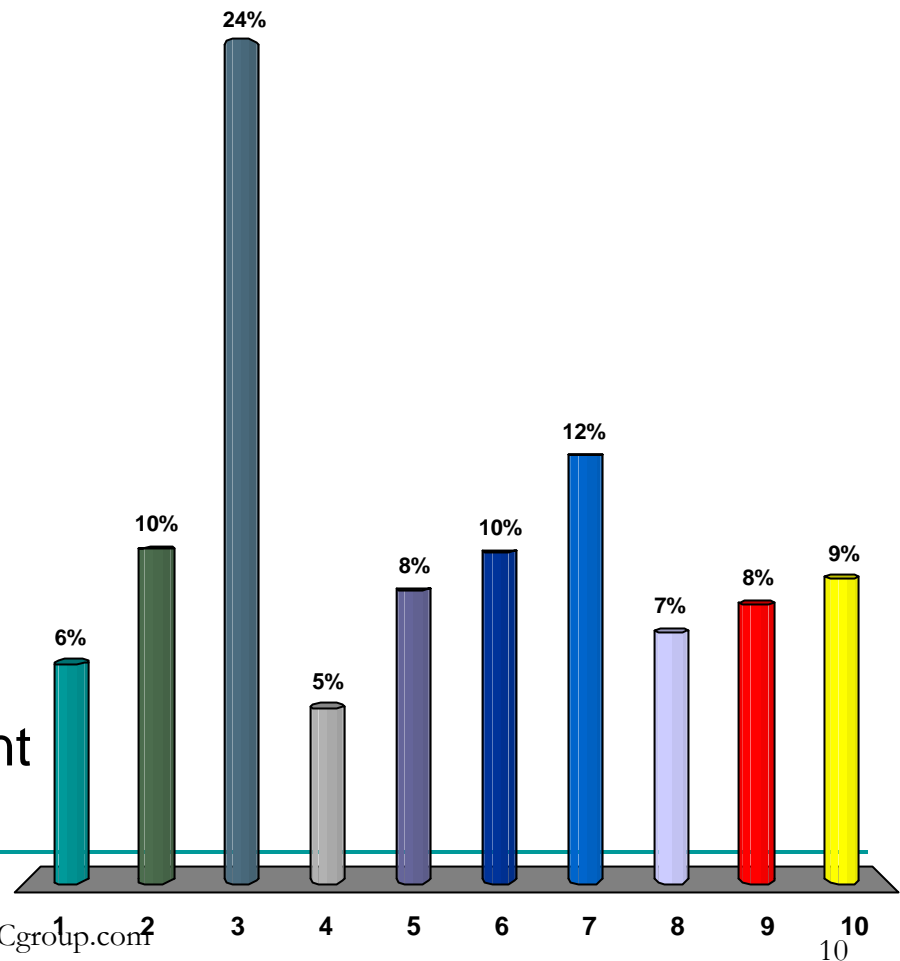
X = Culture Carriers: behaviors and attitudes support the chosen values
X = Culture Converts: monitor and coach these employees to better reflect all the chosen values
X = Culture Outliers: behaviors and attitudes do not reflect chosen values

Benefits of Strong Culture

- Attract and retain top talent.
- Hire for fit much more effectively.
- Orient new employees quickly into the culture.
- Promote and compensate based on values.
- Mentor and coach more effectively.
- Better weather the tough times.
- Improve decision making.
- Create a stronger brand and better story for consultants and other external audiences.

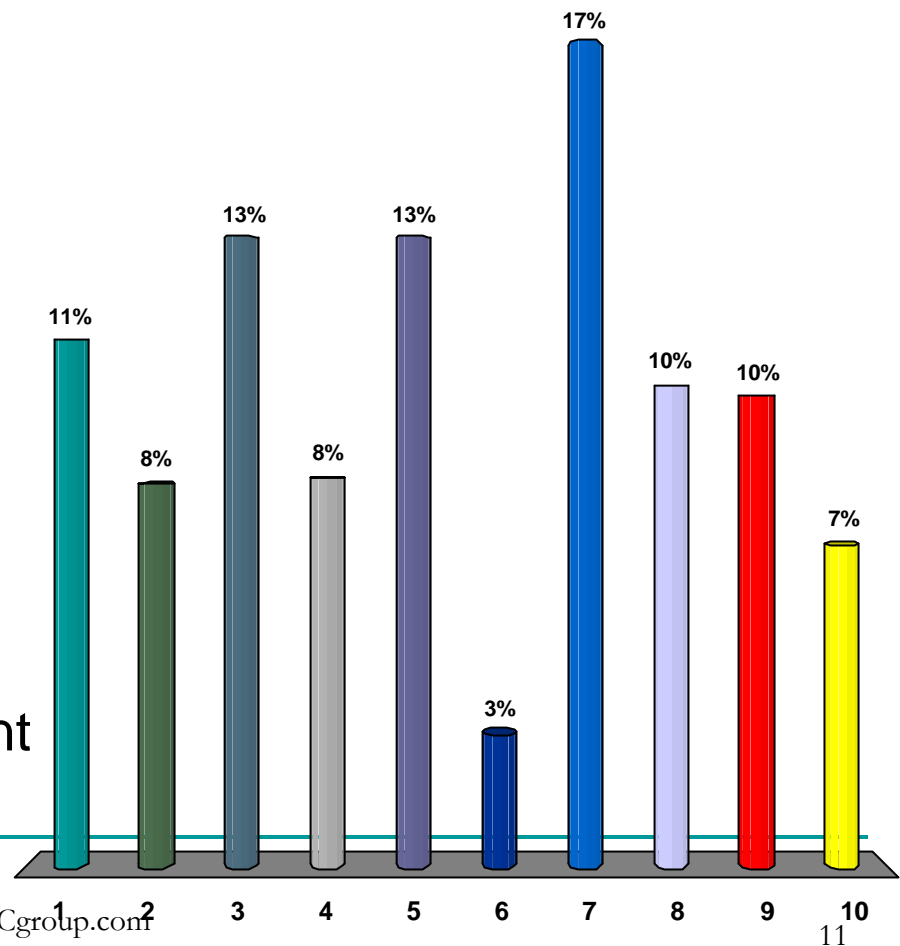
Which of these values are most evident in the culture of your firm?

1. Accountability
2. Balance (home/work)
3. Client satisfaction
4. Clear performance goals
5. Collaboration/teamwork
6. Employee fulfillment/development
7. Ethical/Integrity
8. Excellence/being best
9. Long term perspective
10. Quality/precision/improvement



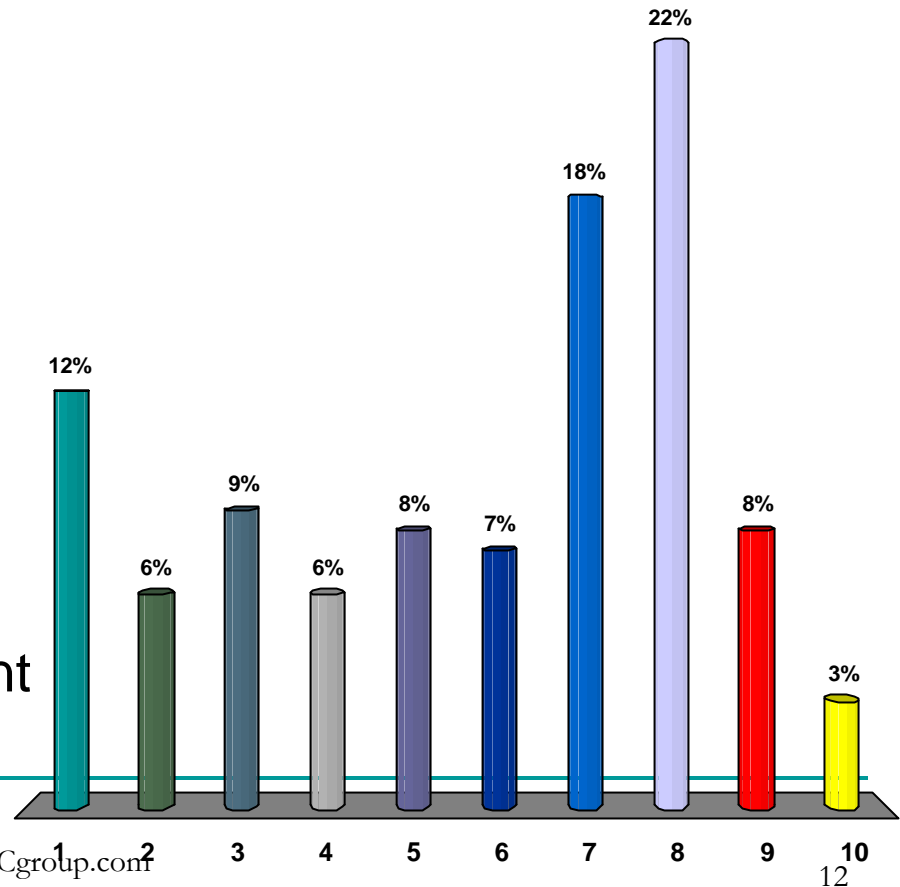
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Which of these values SHOULD be most evident in the culture of your firm?

1. Accountability
2. Balance (home/work)
3. Client satisfaction
4. Clear performance goals
5. Collaboration/teamwork
6. Employee fulfillment/development
7. Ethical/Integrity
8. Excellence/being best
9. Long term perspective
10. Quality/precision/improvement



Culture Measurement: 3 keys

1. Cohesion: Are the staff members on the same page? Do they rally around the same set of values and behaviors?
2. Actual vs. Aspirational: are the current values similar to the preferred values? Is the culture close to its “ideal state?”
3. Sludge: how much negativity is in the system? How much “bad behavior” lives in the culture?

Cohesion (Healthy)

	08	09	<u>High</u>	Industry <u>Average</u>	<u>Low</u>
Existing Culture	22%	34%	72%	40%	18%
Aspirational Culture	53%	56%	69%	49%	32%

Cohesion is defined as the percentage of all votes that were for the top 10 **healthy** existing or aspirational values. Healthy values exclude sludge.

Strengthening of existing culture

2008

2009

Bureaucracy/Territorial 53

Risk-averse 42

Slow moving/reactive 41

Collaboration/Team 30

Short-term focus 28

Client Satisfaction 27

Defensive 27

Manipulate/Politics 24

Balance (home/work) 21

Ethical/Integrity 20

Collaboration/Team 36

Risk-averse 36

Slow-moving/reactive 36

Expense control 34

Bureaucracy/Territorial 31

Client Satisfaction 31

Accountability/Resp. 30

Ethical/Integrity 23

Commitment 22

Defensive 22

Strengthening of aspirational culture

2008

2009

Accountability/Resp.	53	Accountability/Resp.	58
Client Satisfaction	53	Client Satisfaction	47
Collaboration/Team	45	Excellence/BeingBest	42
Excellence/Being Best	40	Collaboration/Team	40
Global (persp./leaders)	33	Creativity/Innovation	30
Creativity/Innovation	27	Ethical/Integrity	30
Ethical/Integrity	25	Global (persp./leaders)	26
Long-term pers./Vision	23	Quality/Precision/Imp.	26
Passion/Motivate	22	Candor/Honesty/Open	22
Quality/Precision/Imp.	22	Adaptable/Nimble	21

Areas to Strengthen from 2009 survey

Value	Asp. # votes	Extn # votes	Gap
Excellence/Being the best	42	9	33
Accountability	58	30	28
Creativity/Innovation	30	4	26

Sludge: Slows down decision-making and stifles creativity

Gossip
Drama
Defensiveness
Disrespect
Blame
Entitlement
Short-term focus
Bureaucracy/territorial
Manipulation/politics
Slow-moving/reactive



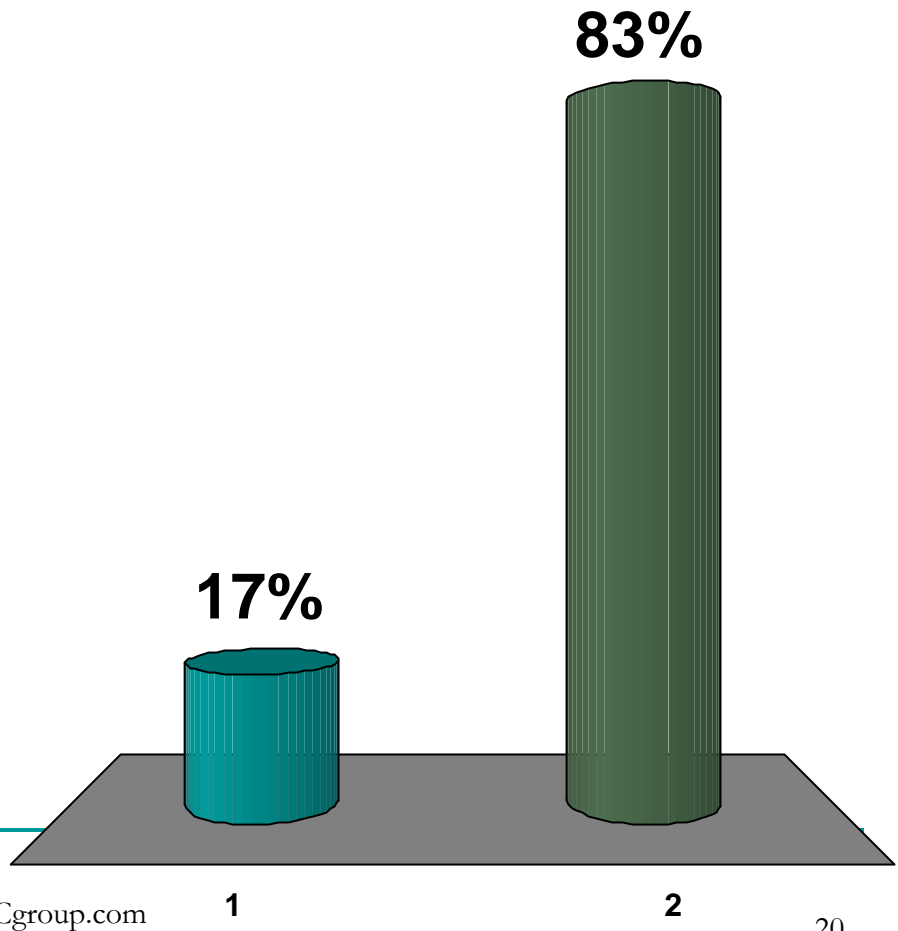
Sludge Analysis

- 2008: 34% of the total votes were for the ten sludge factors versus the 17% industry average
- 2009: 22% vs. 16% for industry average
- Top five sludge factors (# of votes):

2008 Sludge		2009 Sludge	
Bureaucracy/ Territorial	53	Slow moving/ Reactive	36
Slow moving/ Reactive	41	Bureaucracy/ Territorial	31
Short term	28	Defensive	22
Defensive	27	Short term	20

Most firms aspire to the same values—
Integrity, client satisfaction, etc—so
culture does not really differentiate firms.

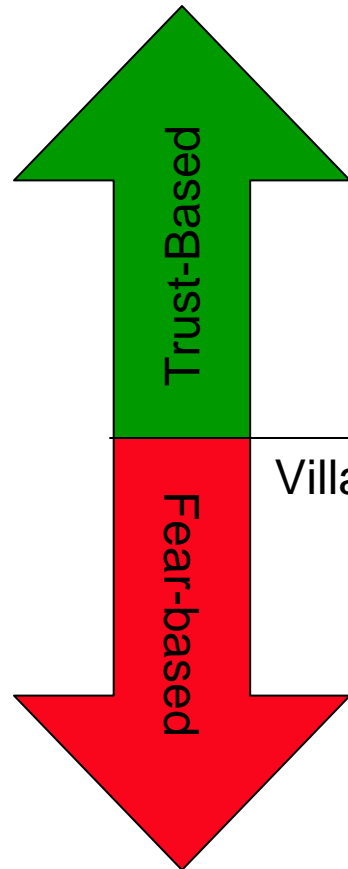
1. True
2. False



3 Key Behaviors of Top Investment Firms

- Curiosity
- Candor
- Accountability

Above the line: Curious and Open



“CREATIVE”
Driver: desire to learn

Villain: You're to blame!



Hero: I'll save the day!



Victim: Poor me...

“DESTRUCTIVE”
Driver: need to be right

Below the line: Defensive and Closed

Candor Mastery – How do you score?

- 0 No mastery: I lie and manipulate the truth to get what I want.
1. I am honest in what I say but I withhold in order to get certain outcomes.
2. I am honest in ALL I say and don't have any withholds.
3. I speak candidly and am able to differentiate FACT from STORY.
4. I speak candidly differentiating FACT from STORY and I hold my story lightly not needing to be right.
5. I speak candidly differentiating FACT from STORY, holding my story lightly, and not blaming or criticizing when I speak.
6. I model and live candor such that people around me move toward candor in their lives because of my presence.

Accountability

- **Accountability =**
 - 100% responsibility +
 - Making and keeping clear agreements