Measuring culture in asset managers

Willis Towers Watson has long believed that culture is a key element to an asset manager's success.[1] However, measuring this can be complex, subjective and open to interpretation, leaving asset owners wondering what to do. This lack of structure increases the risk of missing red flags or threats to a company's long-term sustainability if an allocator does not know the right questions to ask.

Culture has always been a strong consideration in our manager research, and in 2018 we formalised this framework. The framework is based on the work of Roger Urwin, one of the world's foremost investment consultants and head of investment content at Willis Towers Watson. In the competitive world of generating alpha, we believe culture is a unique ingredient and the bedrock on which a competitive advantage is sustained over the long term.

What is culture? Willis Towers Watson defines it as the collective influence from shared values and beliefs on the way an organisation thinks and behaves.

A framework for assessing culture needs to balance the objective of providing a basis for comparison across different firms while also being flexible enough to account for nuances of a particular firm or team. At a high level, we break this down into three areas: 1) how a firm delivers value to its employees, 2) how a firm delivers value to its clients and 3) leadership providing overarching guidance and oversight of culture.

Evaluating culture is not easy. It can require countless hours speaking to a firm's leadership and staff, in addition to data gathering and analysis to create a robust view of the firm. In this paper, we aim to highlight key features of Willis Towers Watson's culture framework and share recent case studies to help investors think about culture and incorporate these factors in discussions with managers.

Willis Towers Watson's culture framework

Two of the three main facets to Willis Towers Watson's culture framework are the **employee value proposition** (how a firm delivers value to its employees) and the **client value proposition** (how a firm delivers value to its clients/ investors). Overarching this is the firm's **leadership,** who not only develop the firm's vision, values and direction, but also evolve it over time. If not carefully managed, a good culture can disappear, weakening a firm over time. In a world of increasing regulatory scrutiny, a manager's ethical orientation and integrity can serve as the ultimate safeguard against fraud and reputational damage.

Leadership: unselfish and empowering

Client value proposition (CVP): the delivery of value to clients across the firm's services and products

Employee value proposition (EVP): how a firm attracts, retains and develops talent to create an engaged staff

Incorporating culture into the investment process

So how does an investor begin measuring culture? As a start, asking managers at varying levels to define their culture can be quite telling: Do employees live and breathe the culture or does it stay at the top?

Sample questions to ask:

- What is your culture and who owns it?
- What funds are you launching and why?
- What is the ownership structure and long-term plans for it?
- What are the capacity and fees on current products? How is capacity measured?
- Describe the employee turnover.

Willis Towers Watson's framework incorporates over 20 factors across both EVP and CVP; thus, it can be quite time consuming to fully review. Examples include:

- **EVP:** Compensation, development opportunities, role clarity and recognition are some ways a company can retain and engage employees. Having a strong mission that permeates across the company is also key, along with factors that can help create better output, including teamwork and diversity in thought. Increasing turnover may be a sign of a weaker EVP driven by one or more of these factors.
- **CVP:** The most obvious measure of meeting client expectations is performance. However, there are other factors that are equally as important, including a strong alignment to success (through fee structures) and an appropriate eye on capacity, as well as intangible measures such as transparency, gaining trust and strong client service (verifiable through reference checks).

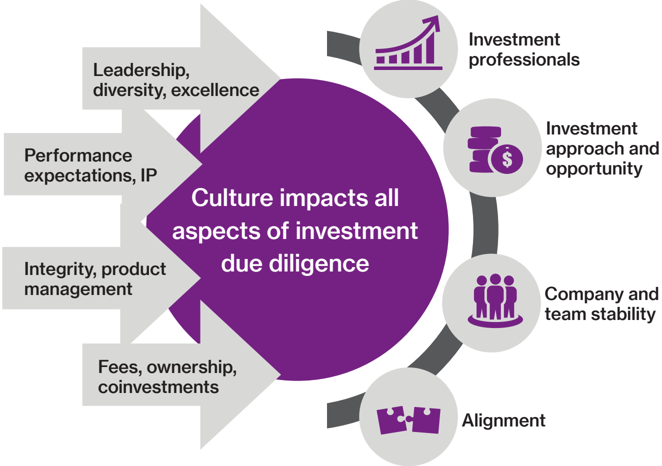
What makes a culture good?

- **Strong leadership** that distributes power (living the company values, putting them into action), and leading with integrity and fairness
- **Healthy balance** among 1) EVP and CVP, 2) business/craft and 3) team/talent (hiring the best talent possible while maintaining a positive team dynamic)
- **Incorporating diversity** to enhance problem solving, collective knowledge and power of the team

Numerous studies have shown the positive impact cognitive diversity can have on performance. Willis Towers Watson believes cognitive diversity can improve outcomes for clients and impacts all aspects of culture (EVP, CVP and leadership). It can be measured in many ways, including:

- Gender
- Ethnicity/Race
- Language
- Socioeconomic
- Political affiliation
- Education
- Professional/Industry background
- Age

Investment due diligence: Where does culture fit in? [2]



Case studies

To help illustrate these points, we examine two manager case studies in detail. While we do not think these situations are unique, they do showcase useful lessons in identifying factors that can impact the long-term viability of a strategy.

1. Lack of empowering leadership

Manager 1 was a small company with one product. The founder was the chief investment officer and lead portfolio manager (PM). He built a team whose investment style and background mirrored his own (similar education and so on). One senior woman on the investment team brought a complementary investment style (more market-technicals-focused versus the PM's fundamental and often contrarian approach).

Catalyst for deterioration: The senior woman left the company, leaving a gap in both diversity in thought and key challenge, where she often played devil's advocate to the PM.

Result: Because of the hiring bias, the company found it difficult to replace the departed professional. In addition, the amount of challenge diminished given that the PM had struggled to distribute power to anyone else. Performance suffered as he failed to properly incorporate more market awareness. He began to resent staff who disagreed with him, leading to further turnover. His dialogue with clients became more strained as he sought to push his views as opposed to listening to concerns. He increased risk taking with less appreciation for market technicals, causing the company to underperform and ultimately led to the company's closure.

Key red flags

- Lack of development opportunities for junior employees
- Less engaged staff and connection to underlying mission
- Weak diversity in thought
- Closely held ownership with no clear plans for distribution
- Client satisfaction undervalued

2. Clear vision with engaged staff

Manager 2 is a large asset manager with several hundred employees and dozens of products across multiple asset classes. The company is employee-owned with a partnership model in place. The company has evolved into new asset classes over the years, at times suffering from product proliferation, but has maintained a core set of values that permeates throughout its staff.

Strong performance can disguise a weak culture. Weak performance can exacerbate culture issues.

Key tenets of culture: The ownership philosophy sets the tone for the company's culture, stemmed by unselfish founders who wanted to create a larger group of shareholders, upheld by a rigorous partnership process. With a global presence, leadership spends a significant amount of time traveling to each office to ensure a cohesive culture remains.

Result: The company measures employee satisfaction through engagement surveys and turnover, which suggests a strong EVP. On the CVP the company launched numerous products, increasing complexity, straining service and leading to some performance issues. However, through recent efforts to create a more structured product approval process, thoughtful capacity guidelines and improved focus on alignment with clients, the company has achieved a good balance, showcasing a humility and willingness to adapt.

Positive cultural elements:

- Initiatives to recruit and develop talent (not only aimed at improving diversity but also ensuring people are in the roles they are best suited for), balanced by letting people go who don't fit the high standards of excellence or are poor cultural fits
- Cross-team collaboration, allowing for sub-team cultures but upholding core values
- Unselfish leadership who attempt to continually learn from mistakes and evolve

Culture can be difficult to preserve as a firm grows. Instilling cultural beliefs into the next generation of leaders can play a big part in success over time.

Culture of compliance

An assessment of the "culture of compliance" is a critical element of our operational due diligence (ODD).

What is ODD looking for?

1. **Leadership commitment:** Senior management needs to commit to a strong compliance environment through their own behaviour and reinforcement.
2. **Strong ownership:** The chief compliance officer should be clearly identifiable, maintain the necessary expertise, and be empowered to ensure compliance with laws, regulations, policies and procedures.
3. **Policies and procedures:** Provide employees with legal and ethical standards to guide their performance and commitment to internal controls.
4. **Training and communication:** Ensure that employees are knowledgeable about the company policies, regulations and laws that apply to their day-to-day duties.

An important note: Weak cultures of compliance can lead to ODD failures.

Conclusion

An asset manager's culture can have an enormous impact on the future success (or failure) of a company's investment products. However, understanding the nuances of culture and measuring this across multiple managers can be both time-consuming and subjective.

Willis Towers Watson believes a thoughtful framework around culture should be centered around three things: 1) the value a company brings to its employees, 2) the value it brings to clients, and 3) the oversight and guidance provided by leadership. Combining a view on the culture across both investment and operational due diligence can help asset owners create a powerful view of a company's long-term investment viability.

We hope this paper highlights the importance of assessing a manager's culture and provides some helpful starting points for discussion.

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Sources

[1] https://www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2015/12/The-Impact-of-Culture-on-Institutional-Investors-final

[2] Willis Towers Watson investment process: https://www.willistowerswatson.com/assets/mailing/ap-17-pub-6122d/WTW-Viewpoints-ManagerReseach-2017-06.pdf

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