

Thinking Ahead Institute

The Power of Culture Study

A white paper of key findings





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Chapter 1: Introduction – The Power of Culture Study

The nexus point

The Thinking Ahead Institute (TAI) was formed in 2015 to address the main investment industry issues, including culture and leadership and one of our first research papers was about culture in institutional investment. Since then we have broadened our research by collaborating with, and learning from, leading investment organisations to develop a culture framework and model. This is formalised in a research paper – [The impact of culture on institutional investors](#) – where we describe how culture is a unique ingredient in the struggle for competitive advantage among institutional investment organisations. It also contains suggestions for how culture can be managed and developed over time, including the factors and strategies for the effective implementation of a strong organisational culture.

This white paper builds on the previous two papers and contains the findings of *The Power of Culture Study*, which involved 15 asset managers and asset owners. These leader organisations joined the study in various ways to better understand their own cultural signature and leadership, where they sit on a spectrum and how they could sharpen their own competitive edge. The study involves the deployment, for the first time, of a bespoke dashboard which scores cultural attributes and edges and the level of engagement with culture at each organisation.

In addition to developing their own better cultural outcomes, participants have supported positive cultural change in the industry.

Despite its centrality to organisational success, culture is still under researched, under measured and widely under rated by leaders as a differentiation tool. This paper aims to address these gaps by distilling our recent research and data to shed new light on the power of culture in support of greater purpose and mission in the investment industry, particularly in these challenging times. This starts with organisations having their culture measured and being empowered to manage it through the development of a unique vocabulary, narrative and fact base. This also facilitates a stronger link with business strategy as well as revealing opportunities for cultural innovation, particularly around diversity and inclusion and notably social justice.

“... culture is still under researched, under measured and widely under rated by leaders as a differentiation tool. This paper aims to address these gaps by distilling our recent research and data to shed new light on the power of culture in support of greater purpose and mission in the investment industry...”

“Now more than ever, investment leaders can make life-changing differences for billions of people’s savings and investments. They will do so by drawing from the widest range of leadership skills to manoeuvre through these epic challenges.”

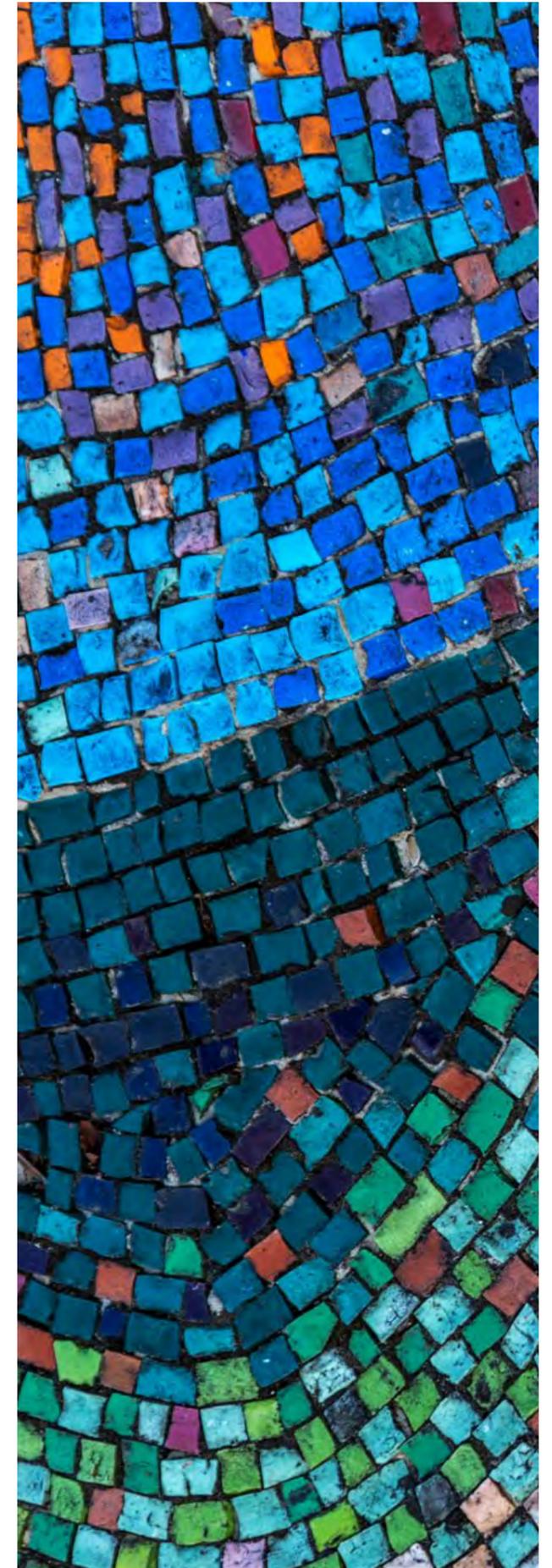
We explore this subject at a time when the Covid-19 pandemic is creating crisis circumstances that is really testing leadership and it is our assessment that organisations with a cultural edge are particularly well-positioned to address these stresses and the recent social crises around racial injustice. Now more than ever, investment leaders can make life-changing differences for billions of people’s savings and investments. They will do so by drawing from the widest range of leadership skills to manoeuvre through these epic challenges.

It is our contention that culture, rigorously measured and managed, will play a leading role in helping investment organisations emerge with stronger, fairer and more sustainable businesses. And, in this process, they will discover that organisational culture is the nexus point for increasingly common conversations about organisational purpose, diversity & inclusion and ESG & sustainability.

The 2020 Power of Culture Study

A total of nine investment organisations took part in the 2020 Study, building on six from 2019, and involved over 150 leadership professionals in the discussions. We share the principal findings from this body of work in the following chapters.

Chapter 2 describes process, measurement and meaning. Chapters 3 to 8 cover the main elements in the cultural spectrum. The particular aspects arising from Covid-19 are covered in Chapter 5 and our conclusions are in chapter 9.





Chapter 2: Culture assessment – process, measurement, meaning

Process

Investment professionals increasingly allude to organisational culture in conversations, while only having a rough sense of what they are referring to, because it means different things to different individuals. A remedy is to start with a fuller definition of organisational culture that explains why things are done in a certain way – mostly about values and beliefs – and how things are done – mostly about leadership and incentives, but also about governance and management. The following multi-dimensional definition of culture, which we have adopted for this study, incorporates these factors:

“The collective influence from shared values and beliefs on the way the organisation thinks and behaves; where culture is influenced by leadership actions at all levels in the organisation.”

Implicit in this definition is the recognition of how culture functions in adding value to an organisation by:

- Supporting strategy by aligning values and beliefs and establishing expectations and trust
- Supporting associates by creating a sense of belonging
- Capturing the power of communication and engagement
- Building focus on the important things and reducing uncertainty.

However, for culture to add value it must be turned into action, which starts with having a clear description, without recourse to stereotypes, and developing a strong narrative around it with measurement being important. Because measurement gives a subject respect.

It provides focus and some feedback critical both to understand the past and have a thesis about the future. In investment, measurement is everywhere. ‘Figures don’t lie’ is the simple mantra. But are they telling truths? This is often doubtful. Typically, we measure what we do because we can, but we can measure more than what we currently do.

Accurate measurement does not equate to materiality or meaningfulness. This is because the investment system is very inter-connected and complex. So, correlations will be weak and there is no simple causation at work. Hard data takes us only part-way in our challenge, so there is the need for more *soft data*. An example of *soft data* is process measures, which are valuable in investment as they map indirectly to performance. And while past performance does not imply good future performance, a combination of good performance and good process – as assessed, surveyed, or proxied – might do that. In the same way the TAI culture model produces credible *soft data* as it maps, albeit indirectly and inexactly, to organisational effectiveness using survey and assessment.

Measurement

Measurement facilitates the tracking of progress to goals and targets and maximises the potential of capturing the benefits of having an effective culture. These include positive bottom-line impacts and underpinning organisational purpose, while providing significant support for strategy and a sense of belonging for colleagues. And at its best it guides faster, better decisions, in a complex and more empowered work environment. In addition, strong organisational culture is a unique source of competitive advantage which it seems the Covid-19 crisis is emphasising, particularly in the five dimensions of cultural edge, which will be covered in the following chapters.

It is our assertion that the sweet spot for an effective culture is employing a consistent language and framework throughout. This involves getting into a safe space to discuss it openly with no judgement or defensiveness and by using an effective culture framework and model. The TAI version is based on research that suggests a normative model of ‘effective culture’ that can be identified through surveying. It involves significant explicit measurement of culture, more so than other models, and is highly specific to the investment industry. It is designed to be streamlined to produce significant results without an onerous time commitment, specifically: agreement around definitions; a unique self-assessment dashboard; an aspirational target culture and narrative; and a set of recommendations.

Our culture model and dashboard represent an attempt to capture a source of considerable comparative advantage for those who recognise the value in measuring culture as a step in the path of cultural improvement. We believe this toolkit will become invaluable for investment organisations as accountability for client outcomes increases and the measurement environment becomes tougher.

In addition, it should help as organisational resilience is tested and behavioural responses to adversity will need to be strong, both individually and organisation-wide. It should also help with risk and change management, given how well-targeted risk taking and adaptability are increasingly critical attributes. And it should keep the leadership team on message by mapping the organisation’s narrative around culture to the dashboard results. Most importantly though, measurement of this sort should promote continued investment in culture, which is essential if reversion to the mean is to be avoided.

Our model is not perfect, in that the concept of culture is not easy to grasp or to communicate – it is tacit, it reflects individuals’ views and it does not yield to accurate description. It should also be acknowledged that the model has the limitation of possible gaming. However, these limitations are largely self-regulating as credible organisations automatically recognise the potential damage, internally and externally, of wilfully aiming to game a certain cultural outcome. They also recognise that gaming ensures that any targets lose their effectiveness, as per Goodhart’s Law which, in simple terms, means participants miss the point by focusing on the letter of the rules over their spirit.

There are other culture-assessment methods involving direct observations, survey work or alternative data, but no one method seems optimal so a balance of methods across the organisation is probably desirable and the TAI approach is designed to be complementary to these.

While there are a number of arguments not to undertake culture assessments – including potential embarrassment, setting ‘hares running’ and cultural turf ‘wars’ – lack of trust in assessment models shouldn’t be one of them. We have endeavoured to address these concerns in our approach and believe the Power of Culture Study format works to deliver value, and empower investment leaders, through:

- A research-based and industry-tested management tool via a culture dashboard to track all dimensions of culture
- Tools to create a common language, cultural fact base and an aspirational target culture
- Giving voice to organisational purpose to define client value and grow stakeholder trust.

Meaning

The TAI culture model includes a reporting dashboard with metrics across ten dimensions of culture, divided into two categories of five core attributes (*client-centric, people-centric, positive leadership, high performance, integrity and respect*) and five edges (*innovation, staying power, purpose, diversity and inclusion, and openness*). Figure 1 is a summary of the model.

The model takes 40 'effective-practice factors' – for example *the organisation's mission is highly focused on its clients* – to make the assessments of these attributes.

In addition, there are metrics for the client-value proposition (CVP) and the employee-value proposition (EVP). These two measures are at the heart of the economic model that generates value for the organisation. Culture creates value by strengthening the CVP and the EVP of an organisation.

The overall effectiveness of a culture combines the core attributes of culture and edge in culture characteristics with the culture engagement to identify the value being created in practice.

The rigour in the process relies on elements coming together:

- **Model and process rigour** – based on the research into the normative elements of culture
- **Constructive engagement** – the mind-set of the participant organisation is a critical component
- **Consistent language** – the shared language makes the conversation much more meaningful
- **Safe space and time** – providing psychological safety helps a sensitive subject come to life
- **Respect for measurement** – having facts in the discussion downplays subjectivity of opinion.

Figure 1 – The Thinking Ahead Institute culture framework



“The overall effectiveness of a culture combines the core attributes of culture and edge in culture characteristics with the culture engagement to identify the value being created in practice.”

Chapter 3: Core cultural attributes

Culture is key to achieving focus and priorities

Culture is multi-faceted. No single descriptor can communicate its complex DNA. It follows that it is helpful to spell out an organisation's culture under various attribute headings, and to identify the weights and the degree of strength or weakness attaching. This is a usual starting point for organisations transitioning towards an aspirational target culture and the TAI model uses the following five cultural attributes: client-centric, people-centric, positive leadership, high performance, integrity and respect.

The simple discipline of thinking through these attributes is a value-adding experience. Effective culture combines cultural strength in which employees' behaviours are aligned and consistent; cultural alignment with strategy; and leadership action embedding culture.

And two core cultural attributes are critical in this focus: the client-centric and people-centric elements.

1 Client-centric core attribute

We describe the importance of purpose later in this paper but at every organisation there must be a deliberate balancing of different interests: clients, firm, workforce, self, shareholder and wider stakeholders. There is considerable challenge, complexity and ambiguity in optimising among interests so trade-offs are inevitably involved. Our experience is that investment organisations do not always deal with these trade-offs honestly and accurately. How much firms actually put client interests first is a critical test of mission and culture.

One of the most significant aspect of this lies in the search for feedback from clients. There are challenges to getting feedback but we have found many organisations use considerable ingenuity to get this to happen with a disciplined cycle of surveys and informal discussion.

A central focus for this feedback lies in trying to gauge the nature of client trust. We have explored the dimensions of trust and its potential to add value in all our Study discussions. Trust, we suggest, is defined by five characteristics:

- The trust-value relationship – trust cannot exist without value, value without trust is unsustainable
- The client-firm combination – the willingness of the client to trust, the worthiness of the organisation to be trusted
- The client circumstances – trust critically scales up with risk, stress and tenure
- Certain measures of trust matter: brand, track record, professionalism and values
- There are certain dependencies for trust to work: on information (the basis for decisions); on innovation (the ability to meet investors' needs); and on influence (the extent to which clients can exert control). For more see CFA Institute Trust Study 2019.

The Study group results for these three key factors in client-centric culture are as follows:

- **Client-centred mission:** 86% of the Study group had this effective practice factor
- **Client-feedback process:** 64% of our Study group had this factor
- **Trust with clients:** 57% of our Study group had this factor.

Figure 2 – Client-centric core attribute | Effective practice factor across Study group



2 People-centric culture

People-centric culture is the other cornerstone and the **team and people culture** is seen by many as critical to delivering to client needs. The talented investment professional seeks an organisation in which they have respect, recognition and belonging; talented colleagues; autonomy, mastery and purpose in the role.

The key attributes of the **group skills** of the organisation generally list something like this:

- **Collegiality** – everyone is allowed a view, consensus is respected
- **Team ethos** – talented teams produce excellence, contingent on mutual trust – when present it increases the value to collective intelligence
- **Communication and inter-personal skills** – critical to collective intelligence
- **Diversity and inclusion** – contributor to collective intelligence and effectiveness
- **Governance** – organisational design, team process and execution matters
- Excellent thinking and process are emphasised
- Recruitment has a high bar
- Investment performance is revered.

The **investment culture** suggests particular value is attributed to the skills and outcomes of investing in which talented people and, more particularly, talented teams deliver service and value to others. A strong investment culture aligns with a sense of passion and nobility for the talent, teamwork and technology at work when investing.

It follows that a strong investment culture is aligned with talent and teams; and the attraction, retention, development and motivation of talented people make up essential parts of the EVP that will be enabled by strong culture and leadership.

The Study group results for these three key factors in people-centric culture are as follows:

- **Meaningful purpose:** 79% of the Study group had this effective practice factor
- **Collaborative teams / or functions:** 36% of our Study group had this factor
- **Effective and trusted team managers:** only 33% of our Study group had this factor.

Figure 3 – People-centric core attribute | Effective practice factor across Study group



Chapter 4: Leadership and culture



It's all about the people

Good culture produces better behaviours and organisational outcomes in concert with good leadership. Leadership in our industry narrative has typically meant dominant and accomplished operators whose powers were granted from high up. But there is a movement towards servant-minded and quietly inspiring leadership types where powers are granted from lower down.

Management and leadership intersect but are different. Leaders have wisdom and get their people to follow their example, while managers have competency and have their people follow their instruction. Leaders are shapers of culture, managers are carriers of culture.

Leadership roles and cultural influence can be played by many people in the organisation, indeed leadership is broadly defined as the acts of anyone who steps out of their regular tasks to help and motivate others.

Research from management science identifies dominance and serving as the two critical pathways for leadership. There is a dominant, confident and support-demanded approach, and there is a serving, empathetic, and support-volunteered approach. In times of uncertainty and stress, the confidence you can get from dominant leadership styles is favoured because it can mobilise the organisation to high-velocity action and compensate employees for their feeling of loss of control. But the management research is clear that this leadership choice is not a case of either / or. Essentially both should be used with the exact mix reflective of circumstances.

Using the Covid-19 crisis as an example where empathy shown to workers through this period of vulnerability, when they crave safety and security, will be preciously valued. So when it's a choice of what's right to do now when family issues arise while working from home; this is the time to choose to do the family thing. For the best leaders, it's not even close and the best decisions, in situations like these, will come from organisations where leadership and culture are strongest.

These organisations will have a few things in common: a balance in the craft of exercising dominant and serving leadership styles; a purposeful culture as a north star; clarity that profit plays a supporting role in that purpose; and a culture that accommodates this 'it's all about the people' moment. We deal with culture in the Covid-19 environment in more detail in the next chapter, but here suggest that this crisis is an opportunity for good leaders to use three disruptive workplace realities to evolve and strengthen their organisational cultures.

1 First, there is growing complexity in organisational settings. This makes command and control-style leadership actually lose control because it cannot get enough accurate real-time information from the frontline. By contrast, good leaders always manage to stay in touch.

2 Second, there is a growing need for emotional intelligence among investment leadership. Employees increasingly expect work and life to be integrated and this is central to good employee experiences where well-being, purpose and personal growth rank highly and intrinsic motivations are more lasting than extrinsic forms like pay. Purpose has been a growing feature in our lives and good leaders are increasingly seeing profit simply as a result of pursuing purpose and something that helps support that purpose. Purpose is the authentic reason organisations exist, expressed in terms of the differences they make to their workforce, clients, and other stakeholders. Well-defined purpose and strong culture are inseparable.

3 Third, there needs to be a culture of openness in the workplace. Leaders previously hoarded information. Now, open-cultured organisations can create the positive state of psychological safety at all levels with everyone feeling included. This plays to better decision making all round and helps people with their resilience during tough times.

It is worth reflecting on previous experience that suggests this crisis will be a leadership defining moment which will be brilliantly handled by a few organisations, adequately handled by the vast majority, and probably botched by the remaining few.

T-shapedness and situational fluency

In order to maintain and build on their organisational cultures, leaders are increasingly required to be T-shaped. Most industry leaders will be deep experts in their field – this constitutes the vertical bar of the 'T'. But many will not have the horizontal bar of the 'T' which only comes with having the situational fluency to be ready to respond in any setting. This includes the context that arises from wider societal and business issues and is achieved through being in-touch with a wider network and other disciplines. This being more in-touch means for example: a greater understanding of stress and fight or flight responses in brain science; the balancing of dominant and serving leadership in management science; the critical quality of safe space in psychology; and how to apply the delicate art of being human.

It also includes a forward-looking perspective in which understanding the changing needs of people and the changing opportunity from technology become critical. This form of tech-savvy humanism is a leadership skill that will be increasingly valued. This suggests attributes for strong leaders include:

- Preparedness to speak out, as employees crave strong leadership shaped from rich values, meaning that leaders have scope to craft messages that go further than the strict confines of the business
- Ability to show the courage necessary to mobilise change effectively
- Openness, clarity and consistency on values and ensure organisational values authentically sync with actions.

A combination of these traits will help leadership be more effective in developing strong cultures and maintaining them. In turn, they will be rewarded with more resilient organisations that are both sure-footed in strategy and steeped in humanity. And, if they can also produce a vivid visualisation of a better future for our industry and society and be focused on contributing to its fulfilment, we will all be in much more resilient shape.

The Study group results for these three key factors in client-centric culture are as follows:

- **Clear vision of the leader:** 67% of the Study group had this effective practice factor
- **Being a strong steward of culture:** 50% of our Study group had this factor
- **Leadership being inclusive:** 50% of our Study group had this factor.

"...being more in-touch means for example: a greater understanding of stress and fight or flight responses in brain science; the balancing of dominant and serving leadership in management science; the critical quality of safe space in psychology; and how to apply the delicate art of being human."

Figure 4 – Positive leadership core attribute | Effective practice factor across Study group





Chapter 5: Culture in the Covid-19 environment

In these abnormal conditions, strong culture has proven to be a huge blessing.

Strong culture is a unique source of competitive advantage for investment organisations which the Covid-19 crisis seems to be multiplying. This stems from the ramifications of dealing with the crisis and the move to remote work practices. Specifically, these opportunities are emerging in the TAI model's five dimensions of cultural edge: *innovation, staying power, purpose, diversity and inclusion, and openness*. We touch on these here and they are covered in more detail in the following chapters. We also look at the emergence of a new operating model.

What seems quite powerful is how the transmission works both from culture onto the Covid-19 issues within organisations and also from the Covid-19 issues onto the opportunities for greater cultural edges in investment organisations.

Innovation

Innovation has always been a difficult challenge for investment organisations but crises produce more fertile conditions for change. This follows the truism that necessity is the mother of invention but also reflects the idea that crises will generally reduce the lure of the status quo. They support more test beds for ideas to be tried out. They allow a safer space around trial and error, so enabling good ideas to emerge. A strong innovation culture – particularly implying agility of thinking and action – enables an organisation, once the crisis subsides, to be on the front foot and primed for action when regular times return. Crises inevitably produce negative thoughts and are breeding grounds for negative actions.

Staying power

Such negativity can be combated through resilience which comes principally from staying power in organisations that are: focused on the long term; well calibrated in risk-taking; and adaptive when adverse circumstances arise. Resilient organisations use the challenge of adversity to mobilise positive energy.

Purpose

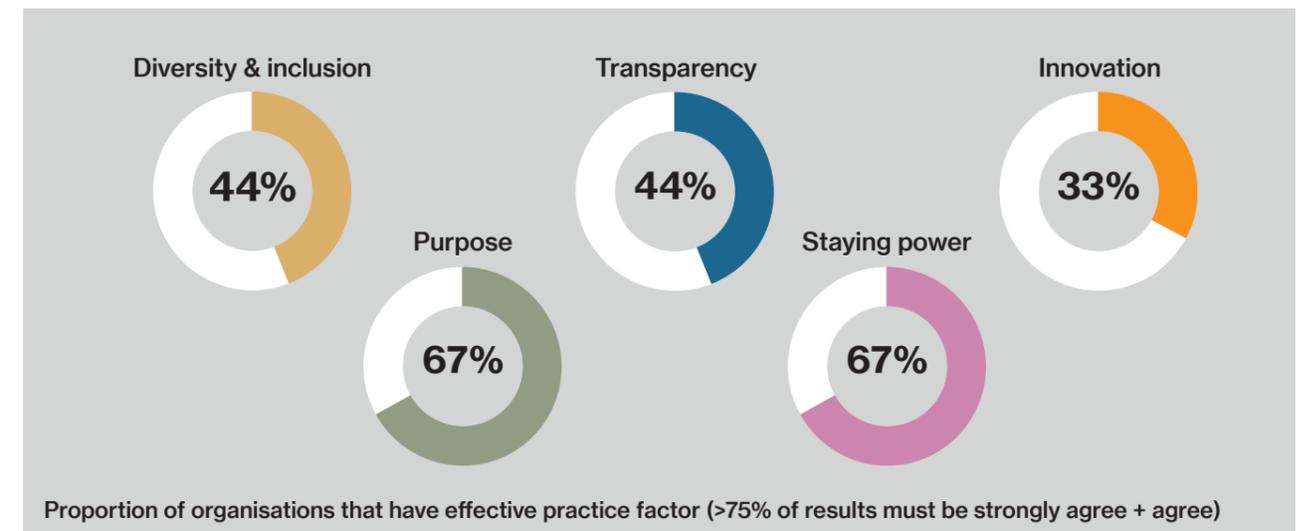
The research is clear that resilience increases when a purpose is engaged and stories from healthcare workers on the front line are a crystal-clear example of this in practice. This suggests that crisis conditions present an opportunity to deepen the organisation's purpose and strengthen the cultural impact of that purpose.

Diversity and inclusion

Crises also bring good values to the surface such as being inclusive through caring, kindness and loyalty to colleagues. The concern for the safety and well-being of every individual must register and be actioned for this to be an edge. An acid test is when individuals are distressed or disrespected by society at large, they know that this is not acceptable within the organisation and that they do not have to suffer alone.

“Strong culture is a unique source of competitive advantage for investment organisations which the Covid-19 crisis seems to be multiplying.”

Figure 5 – How competitive are organisations against their peers? | Effective practice factor across Study group



Openness

This is a truly positive factor and means individuals can reveal their feelings and be open in bringing their whole selves to work. Also, it means leadership expressing their inclusive values in support and ensuring that their organisations provide the full backing, including the psychological safe space, that individuals need.

The responses and communications from many organisations following the death of George Floyd have been consistently pitched and place an extremely high value on diversity and inclusion and openness, hinting at greater emphasis and value being placed on these edges in future. It will be a big test of the strength of culture at these organisations whether the words will be followed by just and fair deeds.

The Study group results for how competitive organisations believe they are versus peers are as follows:

- **Diversity and inclusion:** 44% of the Study group had this effective practice factor
- **Purpose:** 67% of the Study group had this effective practice factor
- **Openness / transparency:** 44% of the Study group had this effective practice factor
- **Staying power:** 67% of the Study group had this effective practice factor
- **Innovation:** 33% of the Study group had this effective practice factor.

The new operating model

These cultural shifts are being mirrored in how organisations operate. Most investment organisations in the Covid-19 crisis have re-shaped their operating model into remote working using technology links with much diminished physical working in offices. While circumstances vary by geography and timeline, the return to an 'old normal' working model is likely to be slow and 'new normal' models may from now on maintain a much higher virtual element.

The working-from-home model has produced benefits to the employee experience – defined as how employees see, hear and feel about all aspects of their employment. Much of this benefit has been via the inclusive culture that investment organisations have shown with their attention to the well-being of the workforce. This has been through regard for safety, reaching out to check-in with people, support for child-care and elder-care, and providing practical support in well-being and mental health areas.

“Much of this benefit has been via the inclusive culture that investment organisations have shown with their attention to the well-being of the workforce.”

But there are some challenges to culture lurking in this model for both the employee and the organisation.

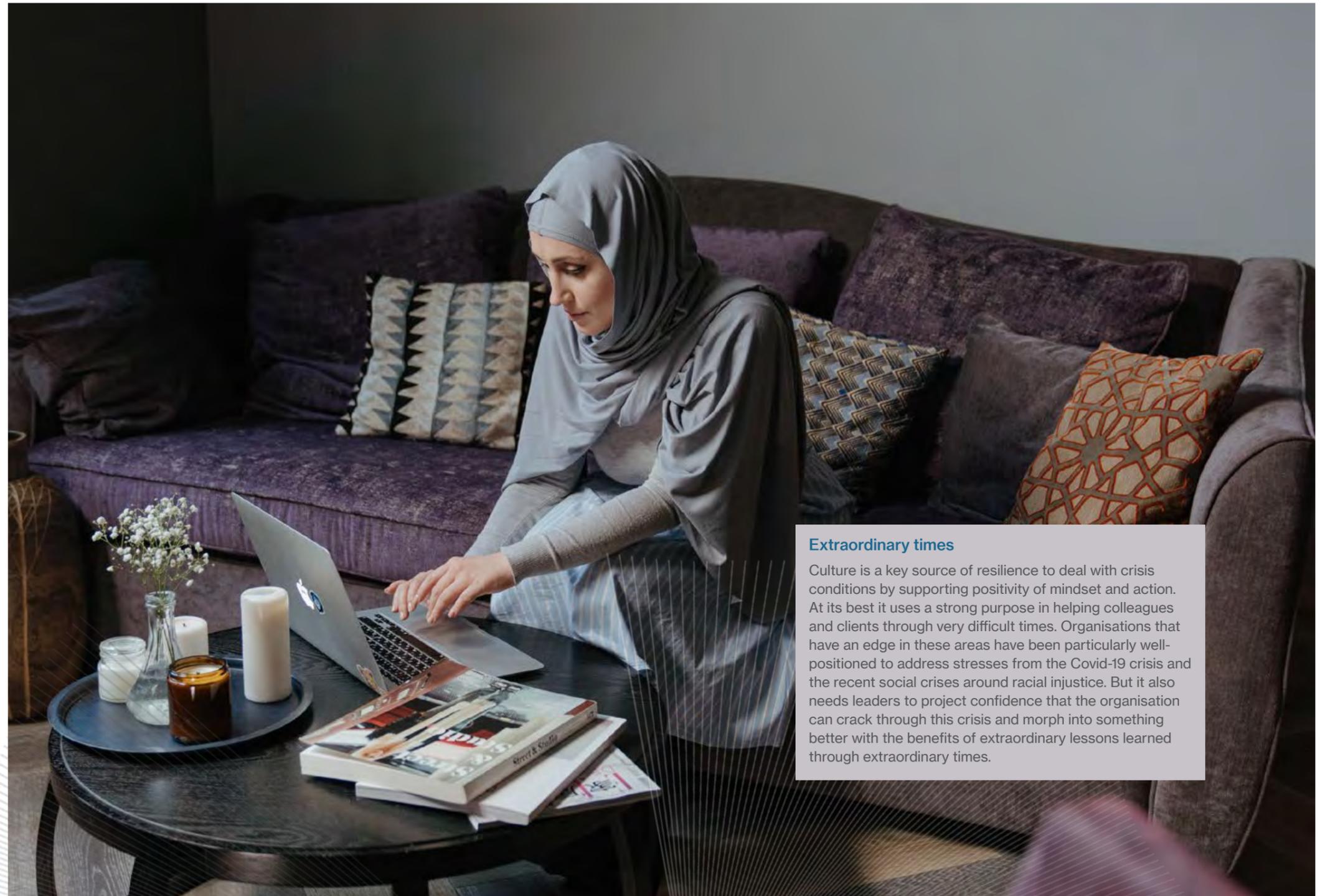
1 First, strong culture tends to weaken without an increase in the collective efforts of leadership to maintain it. And achieving this level of effort is likely to be harder when leaders lose physical opportunities to interact. While initial indications are that organisations have stepped up their cultural responses through leadership actions, there is a question as to whether this can be maintained.

2 Second, silos make joined-up management and culture harder and silos may prove harder to shrink when engagements are virtual. This introduces risks that sub-cultures can develop into stronger fiefdoms and leave organisations with less alignment of purpose and action.

3 Third, trust in colleagues is critical at all levels. Value creation in investment organisations comes principally from informed risk taking which needs trust to be present for appropriate commitments to be made and sustained. But trust is likely to be easier to maintain where physical meetings are part of the mix as opposed to a full virtual operating model.

There have always been challenges to trust in managing teams across multiple locations. While physically separate groups can function together as a practical matter, they may find deeper levels of trust harder. This trust gap from distance carries through to teams that are working remotely. Some trust is carried forward from prior relationships but there are challenges for newcomers to teams that must build trust from scratch. There are substantive cultural changes emerging for all investment organisations as they refine their purpose and adapt operating models involving prolonged remote working and virtual inter-actions.

The choice is to let cultural change just happen – in which case the outcomes are going to be mixed; or shape this culture change – in which case some real benefits can emerge. Organisations opting for the culture-shaping path will be focusing on purpose, leadership, trust and innovation.



Extraordinary times

Culture is a key source of resilience to deal with crisis conditions by supporting positivity of mindset and action. At its best it uses a strong purpose in helping colleagues and clients through very difficult times. Organisations that have an edge in these areas have been particularly well-positioned to address stresses from the Covid-19 crisis and the recent social crises around racial injustice. But it also needs leaders to project confidence that the organisation can crack through this crisis and morph into something better with the benefits of extraordinary lessons learned through extraordinary times.

Chapter 6: Innovation focus

This Power of Culture Study has revealed that investment organisations generally find applying innovation to the business and operating models very hard, in contrast to applying it within portfolios. With large degrees of change in the circumstances of investment organisations, cultural excellence on innovation has become a source of considerable business advantage.

For innovation to be an edge in cultural terms, the organisational norms have to be attuned to a number of critical 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; being supportive to calculated risk taking; having a bias towards taking action; being exposed to test, learn and iterate applications.

For innovation to work in investment contexts, much longer time horizons have to be in play. While innovation in technology works from a speedy, simple and tangible edge in which data will be highly influential, in contrast the investment context of innovation is clearly slow, complex and subtle in its emergence, calling for interpretation of softer data and context. Without good feedback loops this is extremely hard, and for most investment organisations has restricted innovation. Investment organisations have had plenty of ideas about innovations in their investment models through their portfolios but have been notably lacking innovation in ideas for transforming the business, operating and people models to address accelerating change on all fronts.

Successful innovation responds to discipline alongside creativity: good articulation of vision and strategy; cognitive diversity in the team composition and processes; management through soft and hard data and open feedback loops.

Some organisations favour the incubating of innovation within a specific team (and sub-culture) to achieve higher levels of creativity. The opportunities of using innovation labs or innovation hubs to focus a team on innovation carries the advantage of building strong cultural affinity to innovation in a concentrated place, but clearly has the off-setting disadvantage of often falling short of business integration and delivery because of a silo construct.

Innovation is supported through processes like *test and learn* applications and through calculated risk taking and patience is required as results are often slow to emerge, subtle and need narrative. This is because the interpretation of outcomes is uncertain and ambiguous with limited directly attributable data. This makes innovation problematic and results in significant biases to the status quo. Ultimately the characteristics and success of an innovative culture will reflect:

- **Incentives** – the degree to which innovation is rewarded
- **Time scales** – whether the long time horizon attaching to innovation is recognised and honoured
- **Judgement capacity** – the quality of marketplace insight is at the core of this in order to be fully realistic
- **Structure** – whether roles and organisational design allow innovation to flourish.

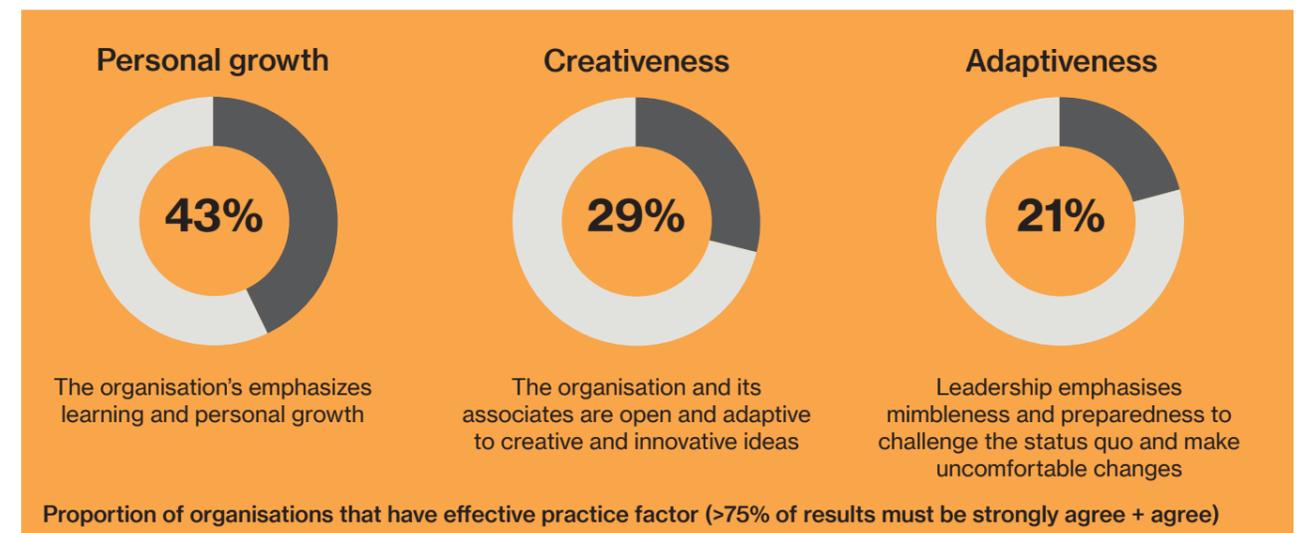
We view the innovation edge as increasingly critical to the future success of investment organisations and the means by which that success will be achieved will rest heavily on culture's support.

The Study group results for three key factors in innovation culture are as follows:

- **Learning and personal growth:** 43% of the Study group had this effective practice factor
- **Open to creative/innovative ideas:** 29% of our Study group had this factor
- **Leadership challenging status quo:** 21% of our Study group had this factor.

“We view the innovation edge as increasingly critical to the future success of investment organisations...”

Figure 6 – Innovation cultural edge | Effective practice factor across Study group





Chapter 7: Diversity and inclusion

Diversity describes the structural mixture of differences and similarities across individuals' values, beliefs, experiences, backgrounds, preferences, and behaviours, often reflecting both visible and invisible diversity traits. Inclusion describes the cultural achievement of a work environment in which all individuals are treated fairly and respectfully and have equal access to opportunities and resources.

Diversity and inclusion (D&I) have two valid motivations – to build a fairer and better culture, and to build a stronger and better business model. It is critical to be clear about each and explore their overlaps where the two can become one compelling cultural edge.

Inclusiveness is increasingly valued in the employee experience. The theory is that diversity matters because diverse groups of people bring more and different ways of seeing problems and, thus, better ways of solving them. With the complex problems faced in investment organisations, weak diversity (thinking the same) gets stuck in the same place; strong diversity, gets through the blockages.

“Diversity and inclusion have two valid motivations – to build a fairer and better culture, and to build a stronger and better business model.”

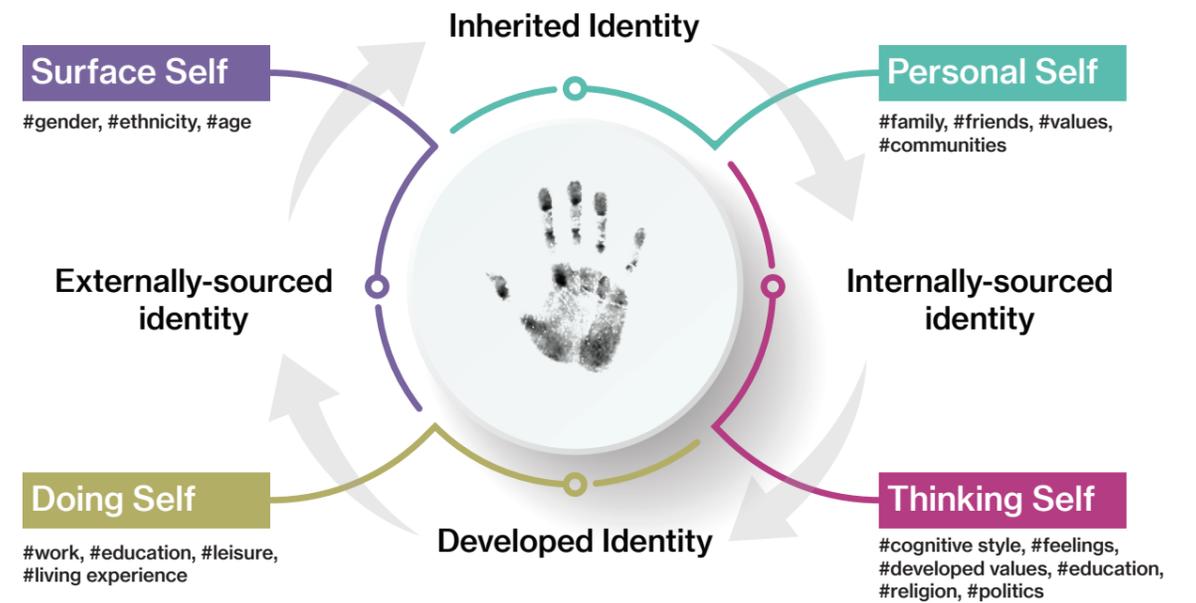
Leadership influence on D&I is substantial and most progress can be achieved by setting and combining three overarching organisational goals:

- Developing the diverse array of the people that make up the organisation (this is ‘diversity’)
- Treating people with respect and decency (this is ‘inclusion’)
- Leveraging the diversity for business success (this is ‘cognitive diversity’ or ‘business case diversity’).

This approach brings out an important difference between diversity and inclusion. Diversity can be considered a bit more structural than cultural (the current mix is often as a result of past leadership decisions) whereas inclusion is more cultural than structural. Cognitive diversity is roughly balanced between these two factors. Leadership therefore needs to consider both structural and cultural elements to effect change.

While gender D&I is important, clearly other dimensions matter too. Cognitive diversity is best considered in terms of diversity in values, education, perspectives and experience. Cultural diversity is better seen as promoting inclusion of all individuals where organisations respect the individual in their whole multi-faceted ‘self’.

Figure 7 – The Thinking Ahead Institute personal identity framework



Source: Thinking Ahead Institute

Diversity is clearly important to organisations. But before promoting fairness and inclusion in the investment industry, organisations need a better understanding of who their employees are. One way of achieving this is to engage sensitively with employees and improve knowledge through the use of an identity map – see figure 7. In developing effective D&I policies, organisations need to make more deliberate strides to understand the identity of their workforce as a very basic first step.

In addition, organisations that foster T-shapedness, are likely to be rewarded with teams that connect with each other well, have broad and deep collective intelligence and harness the power of a one-team culture and the benefits of cognitive diversity. Individual professionals can also become more T-shaped by re-modelling the ways they do their thinking to come up with better ideas.

D&I in the investment industry is a classic ‘arms race’ in the sense that these strategies aim is to come out ahead of competition, creating a typical S-curve with no obvious stopping point. This involves managing the momentum or fatigue that arise in this dynamic, noisy trajectory. There is little choice but to engage in this race, for investment organisations wanting and needing to develop this cultural edge.

The Study group results for three key factors in D&I are as follows:

- **Inclusiveness:** 50% of the Study group had this effective practice factor
- **Better decision making:** 21% of our Study group had this factor
- **Knowledge sharing:** 21% of our Study group had this factor.

Figure 8 – Diversity & inclusion cultural edge | Effective practice factor across Study group



Chapter 8: Other cultural edges and their impact

When settling on a target culture, the usual starting point for organisations is about adding to the five cultural attributes to get to their target culture. However increasingly, these are considered *table stakes* and the areas of real differentiation, and potential edge, are about adding to the cultural edges. Shaping these will best involve a number of deliberate leadership actions, acknowledging that successful action on culture never involves one *silver bullet*, rather involving concerted actions over multiple channels with results emerging over time.

Having dealt with two more challenging and pressing cultural edges – *innovation* and *diversity & inclusion* – in the previous chapters we turn to the remaining three in the TAI model and their impact: *openness*; *staying power* and *purpose*.

Openness (and transparency)

The transparency thesis is that investment organisations stand to benefit through the improved understanding of the economic and behavioural machine the investment industry tries to exploit. Organisations pursuit of this will benefit from 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, in keeping people, they lose some people early, but keep their advocates after experiencing the culture; second, the energy focused on transparency may leave other cultural areas under-powered, like client empathy or employee inclusion; we continue to believe that culture is not a respecter of excess. There are other example organisations that are heavily invested in building a transparent feedback organisation but not full radical transparency.

Some transparency will always exist in an organisation but, for a cultural edge, transparency has to be taken much deeper in a number of areas. The challenge is how effectively and sustainably different levels of transparency work in which the critical issue is employing emotionally resilient people that are engaged and committed.

The key positive of openness is building a sharper image of reality. The key challenge with it is blending such culture into the emotional intelligence of the workplace where increasingly individuals want emotional wisdom to prevail. The reality here is that working relationships may not do well with everything being on the table at every moment, whether individuals are ready to hear feedback, equipped to hear it, and fundamentally whether the feedback is appropriate or not. Again, we are struck by culture requiring some balance.

Staying power

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 to play a tactical and short-term 'game' or alternatively to be more strategic and long-term in behaviours and actions. Long-term cultures appear more sustainable in the longer term but must confront values in people and organisations that are innately shorter term in attitude and preference.

Risk culture is critical in this long-termism comprising the norms and traditions of behaviour that determine how the organisation and its associates identify, understand, discuss and act on risks in the organisation.

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.

Resilience, agility, adaptability and the ability to keep calm is critical to managing crises in VUCA (volatile, uncertain, complex, ambiguous) circumstances. This involves the cultural ability to take setbacks as opportunities to bounce back and grow.

Purpose

Purpose for investment organisations, as for other corporations, involves a new balance to be struck via working on a new corporate mix: societal contribution, employee experience and CVP. This mix is supported by profits, which need to be seen simply as a result of pursuing purpose and something that helps support that purpose.

How is purposeful culture attained? It is first a discovery not an imposition. Authentic purpose provides *certain* meaningfulness and motivations and makes *certain* differences. All investment organisations have to explore which *certain* we are talking of but meaningfulness and motivations should follow from making differences in the lives of very large numbers of pensioners and savers that rely on the organisation's professional service.

The purpose of investment organisations certainly can express a cause that is resonant – given that the outcomes of the industry are significant and impactful. It can also express a cause that is inclusive and serving. In addressing this sort of direction of travel investment organisations will have to ensure their purpose is integral to the business model and reinforced frequently. Integrated thinking is needed for this and integrated reporting can help demonstrate this.

Investment organisations aiming for stronger purposeful culture may have to change their fundamental priorities in respect of their stakeholders: clients, employees, society and owners. In the process, they must settle on a collective vision and mission by socialising it deeply and widely and aligning it with their target culture. And if it is to redound well on the organisation and motivate its people, it is imperative that leaders set the *tone at the top* and *walk the talk*.

“Resilience, agility, adaptability and the ability to keep calm is critical to managing crises in VUCA (volatile, uncertain, complex, ambiguous) circumstances.”

Chapter 9: Conclusions – culture helping the investment industry with a reset

Investment organisations' appreciation of the value created by effective organisational purpose and culture has grown considerably in the last five years and its importance as a differentiator continues to rise. However, we believe the implementation of purpose and cultural change across the industry still lags and filling this gap between opportunity and execution presents considerable organisational challenges. And the language used around culture in the industry, and its framing, remains limited. This contrasts with the growing weighting given to asset manager culture assessments in the hiring and firing decisions overseen by asset owners and consultants.

Notwithstanding, during this journey, conversations with investment organisations about how to generate sustainable performance from more effective cultures, that started at quite a low base, have improved markedly. As a result, there are now a number of investment organisations globally able to differentiate themselves with their purpose and culture. The factor most indicative of edge here is leadership commitment to elevating and actively shaping culture in the organisation. These leaders, in both asset owner and asset management organisations, have built their value proposition around effective purpose and culture by, among other considerations:

- Paying sufficient regard to organisational purpose, beyond a focus on short-term business results
- Understanding and respecting the assessment of so-called 'soft' or intangible factors
- Developing the language, facts and artefacts necessary to communicate culture
- Appreciating how and why sub-cultures exist and interact in the organisation
- Elevating the role of culture in talent acquisition and development.

Industry leaders can help with this *reset* by investing proportionately more time and attention in cultural progression. Table 1 provides a variety of ways in which culture can be changed and managed, but we highlight several attractive options:

- We believe the biggest return on time invested in culture is engaging employees at all levels on how culture works for them. This can be a workshop programme or a learning and development tool created specifically for cultural appreciation
- In support of engagement, there is a critical need for consistent scripting of cultural messages that combines a common language for culture, a fact base for culture (key facts that support its importance and verify its current shape), and a model of how culture creates value
- The power of incentives can be captured through increasing the weighting of culture in performance management reviews
- We support more use of incentive compensation to align culture and the addition of C-suite culture and talent officers to drive cultural change
- We see merit in using this culture check-in approach to make fresh assessments periodically as culture progresses.

The Power of Culture Study was devised to enhance cultural quality in the industry, in part by gathering data from investment organisations to explore their strengths and weaknesses and to help drive up cultural standards in the industry.

Through the study, we have managed to identify best-practice models of purpose and culture; best practices that are critical to improving industry resilience, sustainability and outcomes for all stakeholders.

As Lou Gerstner of IBM said: *"I came to see that culture isn't one aspect of the game, it is the game."*

Table 1 – Culture can be changed and managed in a combination of ways

Top-down (formal) systems	Strategy	<ul style="list-style-type: none"> ■ Vision, strategy and culture in synch ■ Strategy process engagement ■ Structure and organisational design and ways of working
	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 ■ Strong culture messages (eg Netflix-type documents) including workshops and training
	Uses of work spaces, events, artefacts, stories	<ul style="list-style-type: none"> ■ Posters, screen-savers, histories ■ Other employee experience opportunities

Appendix: Culture summit polling results

Responses from 27 participants in the Power of Culture Study.

1 How do you view the state of culture in the investment industry?

- Excellent 0%
- Good 19%
- **Fair 56%**
- Poor 26%
- Very poor 0%

2 To what extent do you believe culture is ahead of strategy (business model and business plan, etc) in terms of influencing good organisational outcomes?

- **Significantly more important 56%**
- Somewhat more important 33%
- Same level of significance 0%
- Somewhat less important 7%
- Much less important 4%

3 How has attention to culture in the investment industry changed during the Covid period?

- **More attention 81%**
- Same level of attention 15%
- Less attention 4%

4 Which of these core attributes do you believe the industry needs to work on most? (Choose top 3 responses)

- Client focus 46%
- **People and teamwork ethos 79%**
- Empowering leadership 61%
- High performance 14%
- Integrity and respect 54%

5 Which of these cultural edges do you believe the industry needs to work on most? (Choose top 3 responses)

- **Diversity & inclusion 92%**
- Innovation 62%
- Transparency 42%
- Purpose 38%
- Staying power 27%

6 In the recent crisis conditions, how do you believe the industry leadership has acquitted itself?

- Very capably 22%
- **Quite capably 70%**
- Adequately 7%
- Not fit-for-purpose 0%

7 Which cultural issues or blemishes do you believe the investment industry needs to pay particular attention? (Choose top 3 responses)

- Regional sub-cultures 38%
- Front/back office/functional sub-culture 38%
- Political factions in cultures 19%
- Star cultures 42%
- **Silo issues 69%**
- P&L issues 31%
- Blame cultures 38%

8 Considering the context of our industry, what cultural issues have arisen operationally in the near term from this crisis? (Choose top 3 responses)

- Opportunities to practice a different leadership communication mix (more frequent, more personal, etc) 71%
- Opportunities with increased understanding of personal situations to support D&I factors 61%
- **Issues with wellness, resilience, mental health given challenges of isolation, disrupted routine 79%**
- Issues about keeping the workforce intact given changed business realities 18%
- Issues with biases around race, national culture and minorities needing additional attention 29%
- Issues with maintaining the business as usual operating model under stresses and changed business realities 32%

9 Considering the context of our industry, what cultural issues have arisen strategically in the medium term from this crisis? (Choose top 3 responses)

- Opportunities to build a stronger and more effective culture 50%
- **Opportunities to reflect increased understanding of personal situations in work/life integration model 62%**
- Opportunities for better employee experience in a better balanced remote working/travel package for employees 58%
- Opportunities to create a more meaningful organisational purpose and vision 50%
- Issues with building stronger and more trusted client relationships 31%
- Issues with repositioning the business for the future to face conditions of a new normal 46%



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The Power of Culture Study participants:

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First State Investment (now Sentier)
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Contact details

Roger Urwin
roger.urwin@willistowerswatson.com

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Since establishment in 2015, over 60 investment organisations have collaborated to bring this vision to light through designing fit-for-purpose investment strategies; better organisational effectiveness and strengthened stakeholder legitimacy.

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Paul Deane-Williams
+44 (0)7734 342139
paul.deane-williams@willistowerswatson.com



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