

Blame, Accountability, and Performance

WHEN A FIRM'S CULTURE PLAYS THE BLAME GAME, PERFORMANCE LOSES

By Jim Ware, CFA, and Jason Hsu

When Focus Consulting Group surveyed more than 2,000 investment professionals globally, 95% of respondents agreed that culture is important to investment firm success. The obvious question becomes: What kind of culture? Jason Hsu and I teamed up to explore this question. He had the statistical firepower, and I had the data. The result is a paper called “Does a Culture of Blame Predict Poor Performance for Asset Managers?” The paper (available at papers.ssrn.com) describes our process in detail, but the big finding is as follows: Blame is toxic to an investment culture. Specifically, blame is inversely correlated with four success factors:

1. Loyalty (employees indicating that they are loyal to a firm and have little desire to work elsewhere).
2. Attracting talent (the ability of the firm to attract talent in the hiring process).
3. Owner mentality (the mindset of ownership: my behavior reflects an attitude of “we” not “us versus management”).
4. Overall success (as an employee, I feel like I am “playing for a winner”).

These correlations have been shown at the 99% confidence level. We can now say confidently that blame is a bad thing! The paper includes comments from investment management professionals, such as “This culture is toxic. When [portfolio managers] have success, it is all due to their brilliance. When they underperform, we analysts get blamed. It even extends to not owning the better stocks. We [constantly] get drilled in our

weekly meetings about why we don't own a name that is up 20%.”

What is it about blame that is so toxic? Why does it have such a negative effect? Employees in a blame culture are unlikely to display personal accountability or to proactively identify problems in which they play a part. Instead, some could be much more interested in pointing fingers with righteousness and hindsight, which creates a “gotcha” environment filled with fear and paranoia. Equally important, anecdotal evidence finds that when blame is high, people can often be unwilling to speak out about problems because they don't want to “get other people in trouble” or be viewed as “grinding an axe.” It is difficult to imagine long-term investment success from an organization steeped

in blame. On this point, Charles Ellis comments, “Agree! Investment management depends on communicating ‘soft shelled’ ideas when the conventional data is in opposition. Such communication depends on trust and careful listening—as described in *Capital*—which gets shut down by blaming.” (Ellis is referring to his book about the investment firm Capital Group titled *Capital: The Story of Long-Term Investment Success*.)

Still, why is it that smart people in investment firms do so much blaming? Research finds that the highly intelligent and competitive people often have the greatest “need to be right.” (For example, see *High Performing Investment Teams: How to Achieve Best Practices of Top Firms* by Jim Ware, Jim Dethmer, Jamie Ziegler, and Fran Skinner and *Teaching Smart People How to Learn* by Chris Argyris.) Organizations that are plagued with fault finding probably value “being right” as more important than “learning” (in a subconscious way). Indeed, perhaps we blame others precisely to satisfy the ego's need to be right. When investment professionals debate in order to prove themselves right and others wrong, it reduces the possibility for learning and thus the possibility for improvement. When research analysts and portfolio managers focus on appearing to have the truth, they are also implicitly committed not to see both sides of the issue but merely to look for confirming evidence.

So, what is the solution? Are investment leaders stuck with a choice of (a) blame or



(b) no blame but also no accountability? Clearly, there must a third choice. And there is. It involves developing a culture in which people take responsibility. The mindset of “taking responsibility” is very different from that of blaming. The person who takes responsibility has learned to ask himself or herself important questions: What is my contribution to the outcome we achieved? Specifically, what did I do or not do and say or not say that contributed to this result? As part of this inquiry, I may ask colleagues or clients for feedback, but my primary motivation is learning how my behavior contributed to the outcome. I avoid the all-too-tempting trap of pointing the finger at others. In this view of the world, accountability resurfaces in four ways.

First, individual and team goals are made explicit so that one can measure exactly whether the goals are met. Second, when individuals or teams fall short of a goal, feedback is the first action of accountability. Team members are made aware of shortfalls, not in a blaming way but in a factual way



relative to the goals. In high-performing firms, this first step—feedback—is the approach that is used most often. It will address and resolve most of the performance issues. Obviously, skill in providing feedback is important.

Third, when feedback does not work, the reward system (bonuses, promotions, etc.) kicks in. Employees who are unable to raise their performance receive fewer rewards—again, without blame attached.

Finally, if explicit goals, proper feedback, and rewards do not resolve the performance issue, it may mean there

is a problem with job fit. The employee is in the wrong job. Still avoiding either blaming or shaming, the manager may need to discuss what a better job fit would look like, whether within the firm or elsewhere.

The critical thing to understand is that blame has been “outed” as one of the major causes of dysfunction and failure for investment firms. Blame creates a fearful, cover-your-backside culture. Employees become less open, less trusting, and less effective. The antidote to blame is taking responsibility, owning our behavior, holding the mirror up to ourselves, and (when appropriate) providing skillful feedback (not blaming) to our colleagues. Firms that do these things well all report that establishing the right culture takes a while. Blame is deep seated in our psyches and takes a conscious effort to root out. But it can be done, with great benefits for all.

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