The Big Shift

Finding a New Center of Gravity in the Investment Industry

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Daring to Change

It was the turn of the 16th century, and many could feel the winds of change across Europe — and around the world.

This change was the Renaissance and the beginning of the modern age as we know it.

With new ardor, scientists started questioning previously held truths. One of the fundamental ones was the idea that Earth is at the center of the universe, with the sun, moon and planets all orbiting around it.

This view was so essential to the medieval understanding of the universe, religion and life itself that no one dared to question it, especially not in public.

And yet, Nicolaus Copernicus, a mathematician and astronomer, did just that. He defied the current thinking and instead suggested that Earth might not be the center of gravity in the then known universe after all. Instead, the true center of gravity is the sun.

During his life Copernicus hesitated to publish his insights for fear of deep skepticism and resistance. And yet without his groundbreaking work, the Scientific Revolution and the sheer scale of progress it brought to humanity would not have been possible.

The story of Copernicus underscores the importance of daring to look at problems in a new way. It is a powerful lesson on the value of ingenuity, persistence and — ultimately — courage.

The investment management industry is in need of these qualities, more than ever. For far too long, the investment community has suffered from persistent challenges, such as short-term focus and deterioration of trust, that are not being solved by the current system. At the same time, a race to the bottom in regard to fees is creating a "survival of the fittest" type of environment.

Our past studies have revealed that the investment industry's beliefs and behaviors, engrained in our collective wisdom (the industry's folklore[1]), encourage short-term focus and a winner-takes-all mentality. What is more, investment professionals' current motivation (a measure we call phi[2]) is largely driven by outperforming the markets, rather than by helping clients and the economy.[3] We argue that the mindset associated with both the folklore of finance and low phi has not only fueled the industry's most persistent problems, but, more importantly, has hindered our industry's ability to fulfill its dual purpose: to support economic prosperity by the efficient allocation of capital and to help clients achieve their financial objectives.[4, 5]

So far, acknowledging the problems has not been enough to prompt significant change. We wanted to know why.

And we wanted to know, do we have what it takes, as an industry, to create the change necessary to achieve better outcomes for our clients and key stakeholders?

"The current model [of the investment industry] is cracking before our eyes. Profit margins are eroding in our industry, yet they are masked by a positive market environment."

CHIEF INVESTMENT OFFICER

Large Global Asset Manager

To answer this question, we took a multidisciplinary approach studying organizational change and learning theories and systems thinking, surveying almost 4,000 markets participants globally and interviewing more than 100 leaders in the financial industry.

As a result of this work, we will propose that the industry's long-term success and survival rests on investment leaders' and professionals' ability to question the system in which the industry operates. We will argue why this is the only way to create the transformational change needed to address the industry's most persistent challenges. This paper will also outline a framework to create the necessary conditions to do so.

Like Copernicus, the investment industry needs to search for its true center of gravity. Our study proposes that the industry needs to focus on clients, but also employees and society at large. This broader lens reveals that the investment industry's true center of gravity is human-centric.

Persistent challenges are going unaddressed

The challenges the investment management industry is facing are all too familiar. Our research finds that investment professionals most frequently point to the following three persistent issues (see Figure 1):

1. Focus on short-term performance over long-term goals
2. Questions about the industry's value proposition
3. Deterioration of institutional and individual clients' trust in the investment industry

Specifically, we found that 77 percent of asset owners said they were concerned that short-term incentives were not being aligned with long-term objectives. More than half of asset managers (57 percent) said the same.

Two-thirds of asset owners are concerned about the value they receive for the fees they pay.

Also, almost two-thirds of asset managers noted lack of trust from their clients as a major challenge, and 58 percent of them are also concerned about underperforming client expectations.

In the case of intermediaries (financial advisors and consultants), lack of trust was identified as the most important challenge in the investment industry today.

Interestingly, according to our research, only 18 percent of investment professionals that are concerned about misalignment of interest believe the industry is working to align short-term incentives with long-term goals.[6]

> **"Finance, suitably configured for the future, can be the strongest force for promoting the well-being and fulfillment of an expanding global population — for achieving the greater goals of the good society."**
>
> ROBERT J. SHILLER
>
> Nobel Laureate, *Finance and the Good Society*

Figure 1: Top-Ranked Industry Problems

On Average

1 Short-termism

2 Value for fees paid

3 Trust

By Segment

Asset Owners

1 Short-termism
2 Value for fees paid
3 Underperformance

Asset Managers

1 Trust
2 Underperformance
3 Short-termism

Intermediaries

1 Short-termism
2 Value for fees paid
3 Lack of purpose

Only 25 percent of the investment professionals who noted lack of trust among clients as a challenge believe the industry is working to regain trust.[7] Lastly, only 31 percent of investment professionals concerned with value delivered versus fees paid believe the industry is working to address this issue — even though market forces are already tackling this problem.[8]

> **"The easier things are to do — the lower hanging the fruit — the more likely it is that we've done them, which gives us a false sense of accomplishment. More structural change is not happening."**
>
> CHIEF INVESTMENT OFFICER
>
> Midsize Asset Management Firm, EMEA

There is consensus about the industry's biggest challenges, yet concerned investment professionals agree that the industry is not actively addressing them. Industry insiders and outsiders alike appear to be growing increasingly frustrated because they believe current efforts to solve some of the investment industry's most persistent problems are simply not enough.

The traditional ‘toolbox’ for leaders is falling short

These types of persistent problems are not exclusive to the financial industry.

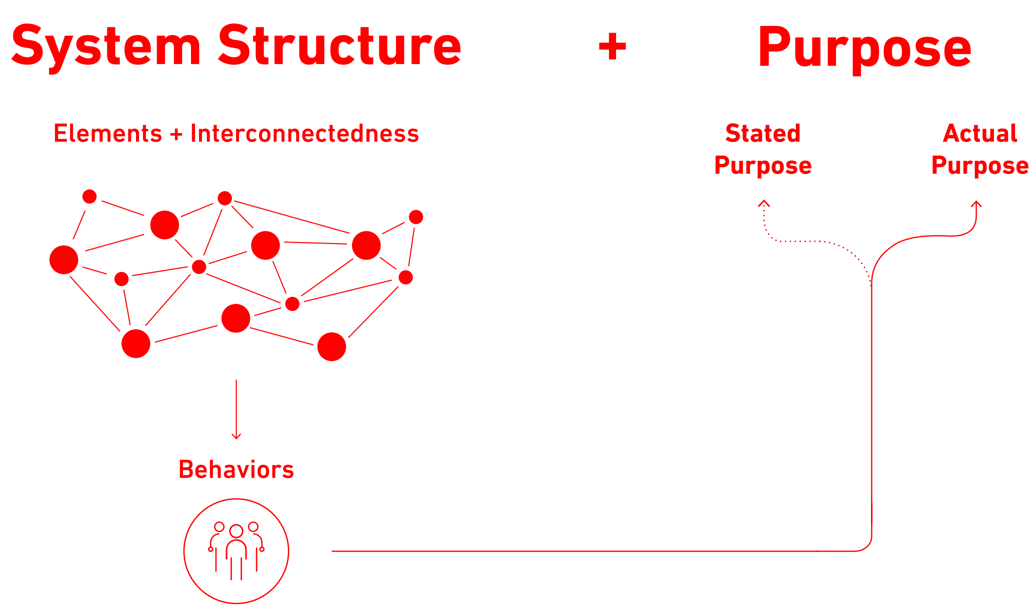
Organizational theory tells us that these types of problems can be characterized as soft problems, challenges that are difficult to quantify with solutions that are just as difficult to optimize.[9] They are instead ambiguous, with multiple interpretations and therefore different solutions. Another characteristic of soft problems — they keep coming back.

The investment industry has attacked these types of problems while preserving the business fundamentals, within existing structures and processes, and driven by well-established business goals. This type of approach to change is called incremental. Two-thirds of investment professionals say their organization focuses on this type of incremental change that emphasizes doing things better. Leaders are so busy running on a proverbial “treadmill” that they cannot stop to think about why they are on the treadmill in the first place.

In addition to this, as they look to address persistent challenges, leaders often lean on what worked in the past. These techniques tend to be rooted in traditional investment, economic and management theories still being taught at leading business schools and leadership training programs.

Organization and change theory tell us that incremental change is effective when the challenges are limited, well-defined and easy to quantify, and the environment is stable and predictable.

Figure 2: System Structure



The issue is: Incremental change is not effective in dealing with soft problems.[10] We are attacking the industry's most difficult problems with the wrong tools.

Preserving versus transforming the system

Leaders have long focused on preserving the system, rather than transforming it.

And yet, success will increasingly rest on our ability to take a step back and question the system itself and its overall purpose.

This separate and quite different process is called transformational change. To understand it, we first need to understand the concept of systems.

We often refer to the finance industry as a "system," but what exactly does that mean and what are the key elements?

"What leaders in our generation learned in the university was focused on the quantitative aspects of investment — asset allocation, CAPM model — skills that have made us survive and succeed. The behaviors and values that would allow you to look at things differently are not in the toolbox of traditional leaders."

CHIEF INVESTMENT OFFICER

Large Asset Owner, EMEA

Systems thinking tells us that a system is composed of elements, the relationship between those elements, and a purpose (Figure 2). The elements (i.e., investors, investment providers, regulators), and the relationship between the elements of a system (i.e., markets), determine the structure of the system, and subsequently system behaviors (i.e., investment decisions based on short-term gains and outperforming peers). These system behaviors, revealed over time, define the system's actual purpose. Purpose is defined by our actions, not by our words.

In the case of the investment industry, as noted earlier, its stated purpose is to support economic prosperity by the efficient allocation of capital and to help clients achieve their financial objectives. However, the financial system behaviors, such as focus on the short term and behaviors that lead to a lack of trust, suggest that the actual purpose of the industry is perhaps different from the stated purpose.

For instance, our research shows that almost half of institutional investors continue to measure success against making short-term gains (less than a year) or beating a benchmark, while 56 percent of individual investors focus on making gains and having no loses or beating peers.

Even more worrisome is the fact that this disconnect may be happening without industry participants even realizing it exists. We found that 78 percent of investment professionals don't see a disconnect between their organizations' stated values and their behaviors.


risk
assets
goals
customers
client
future
returns
grow
management
provide
members
pension
service
financial
retirement
manage
advice
wealth
growth
help
investment
clients

Measuring this disconnect is quite difficult, yet, some interesting results from our survey can help illustrate this point.

First, looking at the purpose of investment professionals alone, we found that the main reason they enter and remain in the industry is because of their "passion for markets," while only 39 percent of investment professionals (and 28 percent of asset managers) said they are working in the industry to help clients achieve their financial goals. Only five percent answered "to support economic growth." There is nothing wrong with being passionate about markets. Market outperformance is necessary to achieve our goals. However, it is possible that investment professionals may have lost sight of the fact that the markets are just a means to an end, and not an end in itself.

Second, when we asked investment professionals about their organizations' purpose, the most frequent word they used was *client* — the industry's mantra. Yet, the perception from individual investors about the industry's values is quite mixed. The most frequent word that individual investors used to describe the financial industry's values was *money*.

Lastly, it was noteworthy that when we asked investment professionals about prevalent myths in the investment industry, most investment professionals (64 percent) agreed that the belief that "what's good for Wall Street is good for Main Street" is not true today.

What does it say about our industry that the purpose of investment professionals is centered on the markets, and not the clients? That the values that the industry represents are centered on money and profits, and are not aligned with what's good for our clients and society? In other words, what are the implications of this apparent disconnect in our industry's actual vs. stated purpose?

We believe this disconnect helps explain why the industry continues to "spin the wheels" when it comes to finding lasting solutions to its most difficult problems.

What if our actual purpose is closer to our stated purpose? What if we change the center of gravity of our industry, farther from short-term market outperformance and closer to clients and society? What if we make our center of gravity more human-centric?

Behaviors more aligned with that purpose will appear. We'll be able to replace the old tendencies with the new.

The path to transformational change

What does all this mean for you, the investment professionals and leaders in the industry?

A change in the gravitational force of the financial system is a tall order, no question about it. But it is not impossible. The path to get there is transformational change.

Embarking on transformational change is hard because it is painful. When we learn new things, and when we unlearn what we previously knew, it creates pain. It is especially painful to unlearn what we knew since it implies giving up something that we once valued. It may feel threatening, as it suggests that we were doing something wrong. It is also painful to acknowledge that we might have less control than we think we have and to try something out when we don't know if it will work out in the end.

The result is denial, hope that the problem goes away. This is reflected in the factthat, despite a widespread consensus on the industry's biggest challenges and the agreement that we are not doing enough, as noted earlier, levels of anxiety in our industry are low. In fact, survival anxiety — the concern that the organization won't survive if change does not take place — was present for just 31 percent of our survey respondents.

Somehow, we are OK with the status quo.

“Change requires tough decisions and tough choices. Incumbents are not necessarily willing to make these changes.”

A New Toolbox for Leaders

How do we undertake the transformational change needed to address the persistent, soft challenges of our industry and, by doing so, succeed and survive?

The 3L Change Framework: A Toolkit for Transformation

The conditions necessary to transform the industry toward a human-centric purpose are summarized in our 3L Change Framework: influential leadership, inclusive listening and humble learning.

Influential Leadership

Ignite change by creating a strong vision of new possibilities that serve the interests of all stakeholders. Influential leadership is the foundation for both inclusive listening and humble learning.

This concept is based on "servant leadership," which is centered on sharing power and putting the needs of others first.[11] Our research shows a positive relationship between servant leadership and both humble learning (positive learning values) and inclusive listening (seeing employees as key stakeholders). Also, servant leadership is correlated with a longer-term perspective (see Appendix A).

Inclusive Listening

Pay close attention to how you listen and to whom. This requires listening to a broad set of stakeholders, including your clients and employees. Inclusive listening helps gain perspective and knowledge from another person while withholding one's own opinion. Research finds that attentive, empathetic and non-judgmental listening is critical for a leader to help employees embrace change.[12]

While financial expertise tends to be valued more than the quality of relationships, our research shows that relationships have the greatest potential to improve the level of client trust in the financial system and its professionals. Inclusive listening is critical in order to strengthen these relationships. (See page 16 and Appendix B.)

Humble Learning

Learn with openness and humility by questioning goals themselves. Humble learning is inspired by "double-loop" learning — where you learn by questioning the underlying assumptions of a system, rather than learning within the structures of a system.[13]

Our survey shows that this type of learning continues to be limited across the financial system (see page 15), and yet it is critical to drive transformation.

Influential Leadership

Transformational change in an organization is not possible without full support and decisive action from the top of the organization. What is more, as noted in its stated purpose, the investment industry has a critical role to play in promoting prosperity and economic growth. Leaders need to be able to reflect on this purpose and clearly communicate it to their shareholders, board, employees, clients and society in general.

In this study we looked at three distinct types of leadership:

- **Transactional Leadership** — Focuses on supervision, organization and performance. The leader promotes compliance by followers through both rewards and punishments.
- **Transformational Leadership** — Leads by example by serving as a role model to inspire employees and enhance motivation, morale and job performance.
- **Servant Leadership** — Shares power, puts the needs of others first, and helps people develop and perform at the highest level possible. The leader exists to serve the employees.[14]

Different types of leadership work in different types of organizations. However, as organizations face a more complex and ever-changing environment, our research shows they must shift from a traditional hierarchical organizational structure toward one that encourages meritocracy, trust and stakeholder participation. To make this possible, leadership must evolve from transactional into servant leadership.[15]

In fact, our analysis shows that servant leadership is associated with a better learning culture (humble learning), viewing the employee as a stakeholder (inclusive listening) and a longer-term perspective (see Appendix A).

Servant leadership is also best suited to be influential, since it emphasizes values and purpose. Interestingly, 88 percent of organizations with servant leadership said that their organizations' values are aligned with behaviors.

And yet, our research finds that the most prevalent leadership style in the investment management industry is transactional leadership. Only 16 percent of investment professionals said that servant leadership is prevalent in their organization.

There is also a role for investment professionals, across an organization, to exercise influential leadership. As empowered employees begin to understand and embrace the human-centric purpose of the investment industry, energy will be devoted to finding new solutions and creating a better alignment between day-to-day actions and the goals of the organization and clients. This is a concept we discussed in our *Discovering Phi* study and is characterized as having high phi.[16]

Inclusive Listening

Inclusive listening is one of the key aspects of a leader's transformational change toolkit. This is related to how we listen and to whom.

First, it is critical for leaders to pay attention to the messages and information they receive from all their stakeholders.

Indeed, we see a growing movement away from the widely accepted the Milton Friedman shareholder primacy model[17] and toward a more holistic stakeholder model that includes the interests and perspectives of employees, customers, community members and civil society as a whole.[18] This is driven by an increasing realization that a healthier society is good for the bottom line of businesses, and the economy in general, especially over the long term.[19] However, our research shows that only half of asset managers (54 percent) and less than half of asset owners (43 percent) view employees as an important stakeholder. In the case of communities, only nine percent of asset managers and 16 percent of asset owners said that was the case.

Secondly, in addition to listening to a broader set of voices, it is also important to improve the way we listen. "High-quality listening," which entails being "attentive, empathetic and non-judgmental," is critical for a leader to help employees and other stakeholders embrace change. What is more, high-quality listening facilitates seeing different sides of an argument for a more comprehensive perspective of a situation, which facilitates humble learning.[20]

Humble Learning

The final, and potentially most powerful, tool to create transformational change is to engage in humble learning, which is based on double-loop learning.[21] It is not learning how to do things better, but how to do the right things. This type of learning questions values, beliefs and goals, and ultimately questions the system itself. Working on redefining what is important is an example of double-loop learning.[22] Examples of double-loop learning as a tool to improve business outcomes have been documented in other industries and in companies such as Xerox, Motorola and General Electric.[23] [24] [25]

Our research found that most investment organizations don't engage in humble learning. Only 38 percent of investment professionals said their organization enables goals to be challenged and makes sure that they are doing the "right" things, rather than "doing things right."

Investment organizations need to provide the space to prioritize humble learning, mainly by promoting a learning culture through their values and incentives. A true learning culture is based on humility.[26] Being honest about errors and mistakes, while focusing on finding ways to improve and further the organization's and clients' goals, should always come first. Trying to defend the ego or "save face" hinders the ability to learn.

The Power of Relationships: Insights to Regain Trust of Individual Investors

Trust is paramount for the investment industry, for both individual and institutional clients. In the case of individual investors, a low level of trust was the most significant challenge noted by intermediaries in our survey. This is in line with other research, including by the CFA Institute, which noted in a recent report that the most important aspect for an individual investor when hiring an investment professional is trust.[27] However, our survey shows that only one-third of individual investors say they trust their financial advisor and the majority (80 percent) see trust for their advisor stagnant or declining.

In this research, we looked at different aspects of communication between financial advisors and their clients and how quality of communication can improve clients' perception of trust. In particular, we focused on two main aspects of communication — content and relationship. We refer to:

Content: Client's financial literacy level and general level of comfort with investing and the capital markets.

Relationship: The degree the financial advisor is able to fulfill three important human psychological needs: the need for autonomy, for relatedness and for competence, based on the Self-Determination Theory.[28] In other words, the financial advisor's ability to understand how an investment strategy is aligned with the client's unique goals and their values and beliefs (autonomy), ability to provide a sense of confidence about achieving their goals (competence), and ability to create a good rapport and open relationship with their client (relatedness).

Our research shows that while financial content expertise tends to be valued more than quality of relationships, it is the quality of relationships that has the greatest potential to improve the level of client trust in the financial system and its professionals (see Appendix B).

Specifically, our empirical research finds that the ability for the advisor to fulfill their clients' psychological needs (relationship) has a positive and significant relationship to thinking that the industry offers products in the best interest of the client, and to the overall level of trust in the financial industry. Quality of the relationship, moreover, is positively correlated with a long-term mindset and is negatively correlated with measuring success as simply making gains and having no losses. This means that quality of relationship is conducive of more successful investment outcomes as it supports good investment behaviors. Financial literacy (content) has also a role to play to improve communication. In fact, we found that financial literacy has a positive and significant relationship to thinking that the industry is good for the world and suffers less of short-term focus. Interestingly, content does not appear to address the issue of trust.

To summarize, better quality of relationships — one that focuses on an alignment of values and beliefs, focus on achieving goals and open communication — is key to increase levels of trust and to create healthier investment behavior among clients. This would lead to more successful outcomes and, consequently, a more satisfied client: an investment relationship virtuous cycle.

“The industry needs to be better at getting away from the ‘mechanics’ of things and make it easier for people to understand where they are [in the investment horizon toward retirement]. ...The industry has failed people in letting them know how bad their situation is because we’ve been focusing on benchmarks, etc.”

HEAD OF RESEARCH

Midsize Asset Management Firm, North America

The industry's learning culture is not what it seems

A strong learning culture is the foundation for continuous improvement and innovation, in any organization, in any industry.

At face value, the investment management industry appears to provide the safe learning environment needed to build this type of culture, an environment in which mistakes are forgiven, shared, and learned from and where vindictive behaviors are minimized. Sixty-seven percent of our institutional respondents report they are in a safe learning environment.

However, if we scratch the surface, we find that some of the key learning values are not prevalent.

Only about one-third of investment professionals said that, when faced with a change opportunity, they seek objective truth, even if painful.[29] Interestingly, asset owners fared worse than asset managers in this category, with only 28 percent of asset owners saying this is the case, versus the 39 percent global average.

Also, sharing information and providing feedback freely was only noted by 35 percent of respondents. This seemed to be a bigger problem among asset managers, with only 28 percent of professionals in this segment saying this was the case.

Also concerning was the fact that only 19 percent of investment professionals said they commit to learning because they believe the process will be fair. For investment professionals to openly admit and address mistakes, they need to trust that their employer will treat them fairly and see mistakes as a learning opportunity rather than a reason for punishment. Today this is not the case.

The industry's ability to create a true learning culture, by actively and intentionally promoting values and behaviors that focus on solutions rather than retributions, will allow it to innovate and create better outcomes for clients and stakeholders.

It's time for the Big Shift

The investment industry is dealing with persistent challenges that can only be addressed by questioning the system itself.

Being a fiduciary is centered on putting your clients and beneficiaries' interests first. Embracing transformation toward a human-centric purpose will take letting go of incentive structures that focus on specific performance metrics over narrow time frames, in favor of a more long-term vision for your organization and its role in society.[30]

Committing to the unified stated purpose of the financial system — to support economic prosperity by the efficient allocation of capital and to help clients achieve their financial objectives — will strengthen a financial institution and allow it to focus on higher aims.

“What freedom do you give people to experiment and not succeed at every single thing? There is not a lot of room for this…constraints in the organization will determine if an organization can learn or not.”

The Big Shift Toward a Human-centric Industry

First steps to true transformation

How do we bring about the type of transformation needed to shift our organizations' (and our industry's) purpose from market-centric to more human-centric? How do we find this new center of gravity, starting now?

While transformation can seem daunting, it can be achieved through a multitude of day-to-day actions and decisions. Leaders can start by prioritizing some specific action steps, using our 3L Change Framework.

Influential Leadership

1. Align overarching goal with purpose

Why it matters

Traditional goal setting and measurement prioritizes short-term financial performance.

A system has a tendency "to produce exactly and only what you ask [it] to produce"[31] highlighting the importance of careful goal setting and alignment with overall purpose.

An expanded set of performance metrics for investment strategies (e.g., long-term goals), for clients (e.g., trust and satisfaction) and for employees (e.g., engagement, behaviors) can bolster efforts toward more long-term oriented goals.

What can you do tomorrow morning?

- Reset overarching goal: Allow all actors to break out of their mental models of short-term financial performance. Make sure the feedback loops in place (such as incentive structures and information flows) are serving the overarching goal.
- Consider important goals, not only the ones that are easy to measure (i.e., metrics on client trust, satisfaction and outcomes).[32] Leverage technology to do so.

2. Envision the future

Why it matters

Systems thinking is based on the idea that "the future can't be predicted, but it can be envisioned." This is why we should use the method of back-casting (or pre-mortem)[33] much more than we do and rely less on forecasting than we currently do. We start with the attractive vision of the future and then work our way backward to where we are today.

What can you do tomorrow morning?

- Schedule some time to reflect. Use self-help kit for leaders to reflect on tough questions (see Appendix C).
- Encourage your team, employees and peers to do the same.

3. Be an agent of change

Why it matters

It is critical for leaders to openly commit and collaborate for the development of the overall financial system and follow through on that commitment.

What can you do tomorrow morning?

- Define the organization's purpose in the context of "societal services that the organization provides to satisfy human needs" (as opposed to simply providing products)."[34]

- Speak often about the role of the industry in society and the purpose of your organization. Talking about the purpose of the industry, with confidence, is critical for this shift in mindset.

Inclusive Listening

1. Listen to clients: Focus on their needs

Why it matters

Most investment professionals agree that understanding client needs will be the most important technical skill in the industry in the next 5–10 years.[35] Still, investment providers are focused on a narrowly defined set of client objectives (e.g., outperforming a benchmark). To best serve individual and institutional clients, investment professionals need to pay closer attention to their clients' unique set of needs. Performance must be personal.

In the case of individual investors, this model of performance would include market components such as alpha or beta, as well as investor components such as income and liability management, and values-based investments (i.e., impact strategies) for those who expect more than financial returns.[36] For institutional investors, high-precision outcome-driven mandates are a good starting point.[37]

What can you do tomorrow morning?

- Asset managers and financial advisors: Set up a "discovery" meeting with your client and prepare to ask a broader set of questions regarding their or their organization's unique long-term objectives. Include financial and non-financial goals. See CAR's Values Discovery Tool for individual investors.[38]

"Open dialogue helps understand what the client is thinking. This is an opportunity to meet their requirements. For a solid partnership, communication is key. If you are just seen as a vendor, the business model will not survive."

HEAD OF CLIENT RELATIONSHIPS

Midsize brokerage firm, APAC

- Add a "client chair" at meetings: one person represents the voice of the client at every meeting.
- Leverage technology to systematically engage with, and gather insights from, your clients and beneficiaries. Net Promoter Score is an example of that.
- Asset owners: Set up a meeting with your asset manager to discuss if and how the current strategy is aligned with your organization's long-term financial and non-financial objectives. Refrain from talking about short-term benchmarks.

2. Listen to employees: Move toward more meaningful work

Why it matters

Traditionally, employees have been expected to draw a clear line between their work and their personal interests and well-being. The rise of millennials in the workforce and new technology developments, however, "has resulted in blurred boundaries for many professionals whose ambitions have moved beyond work-life balance to work-life integration."[39] To attract and retain top talent, investment organizations need to provide an opportunity for employees to create a deeper connection between work and life. In fact, our research shows that employees are more engaged when their values and beliefs are aligned with those of their organization and their clients.[40]

What can you do tomorrow morning?

- Establish Listening Circles[41] where leaders and employees are encouraged to have an open discussion, in an informal environment, about the organization's purpose and culture and their interpretation of what that means for them, personally.

- Connect the dots between work and goals. A recent study noted that one way to create meaningful work is for managers "to build in time during team meetings to clearly articulate the connection between current projects and the company's overall purpose."[42] Connecting the dots also provides an opportunity to empower an employee, which "can have a huge impact on [the] employee's experience of meaning and helps improve company processes." This will require more intentional transparency across the organization.

- Encourage employee networks: Social networks, formal or informal, where employees with similar values and interests can interact and engage, can serve as a valuable support system. In fact, research shows that "employees who reported the highest levels of workplace social support also scored 47 percent higher on measures of workplace meaning than did employees who [did not]."[43]

3. Listen to communities: The backbone of the economy we invest in

Why it matters

If you are a public company, leaders typically prioritize driving shareholder value based on the widely accepted theory that corporations' primary purpose is to increase profits. However, in recent years, there has been growing evidence that organizations that pay attention to the needs of all their stakeholders, beyond their shareholders, are better positioned for long-term success.[44] [45]

What can you do tomorrow morning?

- Get informed. Become familiar with the growing evidence that says focusing on a broader set of stakeholders' needs can support the long-term success of the economy (and therefore investment assets) as well as your organization, either public or private. Organizations such as A Blueprint for Better Business work with both businesses and investors to incorporate the broader needs of society into the decision-making process.

- Help fund research that can further the understanding of the relationship between stakeholder value and long-term financial performance.

Humble Learning

1. Build a learning culture based on trust

Why it matters

Learning organizations are centered on seeing mistakes and failures as an opportunity to improve. Make sure your organization welcomes an open recognition of mistakes, takes time to reflect on what could have been done differently and adjust for the future. This environment requires humility, honesty and, more importantly, shared trust.

What can you do tomorrow morning?

- Coach managers to create an environment where mistakes are seen as learning opportunities and where information and feedback is shared freely.
- Create necessary incentives (performance metrics and compensation) to encourage the adoption of a learning culture.
- Introduce Emotional Intelligence (EQ) training to managers. Include EQ assessments for new hires. Research shows that empathy is necessary to build trusting relationships, not only with clients, but also with employees and colleagues.[46] Empathy requires a high degree of self and social awareness.
- For financial advisors: Embrace transparency. Our survey shows that the best thing a financial advisor can do to retain business after a setback is to honestly admit his/her mistake and communicate a plan of how to deal with it.[47] The majority, 64 percent of individual investors, say the most important thing that the industry can do to improve public trust is increased transparency.

2. Consider interdisciplinary views

Why it matters

Leaders in the investment industry typically reference a well-defined body of financial theory and knowledge when developing new products and services. Recent efforts to innovate in areas such as sustainable and impact investing, as well as behavioral economics, show that interdisciplinary perspectives are critical to success. In fact, a recent CFA Institute study identified T-shaped skills, which include "ability to connect across disciplines," as the most important skills for the investment industry over the next 5-10 years. The same report showed this is the second most difficult skill set to find.[48]

What can you do tomorrow morning?

- Demand a more diverse set of candidates for the next position you are trying to fill. Encourage the Human Resources department and recruiters to look not only for gender and ethnic diversity, but also diversity of educational backgrounds and life experiences.
- Leverage internal networks by creating programs that facilitate exposure to people across the organization.[49]

3. Encourage experimentation

Why it matters

While a trial-and-error approach can sound risky (and was only present in 34 percent of our survey respondents) it is critical for innovation. Safe experimentation environments, where small groups of carefully selected employees can develop and test new ideas, can help leaders drive transformation.

What can you do tomorrow morning?

- Start small. Identify a specific challenge your organization is facing and set up a small group of employees to brainstorm solutions.
- Encourage methods that look at problems in a different way such as IBM's Design Thinking.

Conclusion

We recognize that this will be a long process full of uncertainty. Just like Copernicus' work, it will require ingenuity, persistence and courage. And the benefits of each action will not be immediately obvious.

But we know that our ability to change in a truly transformational and lasting way will allow us to effectively solve the persistent problems our industry is facing today, once and for all. Short-termism, questions about our value proposition and lack of trust will all be addressed head on.

At the same time, by being open to innovation and to the voices of all our stakeholders, we will also be able to embrace new challenges on the horizon.

Most importantly, by shifting the actual purpose of the investment industry from primarily market-centric to human-centric, we will be able to reclaim the industry's societal license to operate and therefore create a more sustainable, thriving industry today and for generations to come.

CoreData conducted a survey of 985 investment professionals on behalf of State Street during July 2018. The survey measured a series of individual sentiments, organizational practices and outcomes based upon theories including learning theories, change theories and system theories.

The Center for Applied Research (CAR) fit a series of segmented logistic regression models to examine the effect of organizational behaviors and attributes on outcomes of interest. This includes a series of models with the entire sample, but also segmented models dividing the sample by industry segment. The reasoning for dividing the sample by industry segment is that each segment faces myriad exogenous conditions and pressures for which we cannot otherwise control.

Each independent and dependent variable was based on ordinal Likert scale of {1:5}. Each variable was then coerced to a binary {0,1} where a zero represents Likert responses between {0:3} and a 1 represents Likert responses of {4:5}. This is intended to achieve subjectivity between discrete intervals, and also to fit a logistic model with fewer assumptions than an ordered logistic model.

First, we fit models with all possible predictors of interest. Second, we fit models with only selected predictors. After fitting models with the aggregate sample, the entire process was then repeated for the following industry segments: pensions, insurance, institutional-focused asset managers, retail-focused asset managers and financial advisors.

CoreData conducted a survey of 3,400 individual investors on behalf of State Street during August 2018. The survey measured a series of individual sentiments, investment practices and outcomes based upon theories including need satisfaction and motivation.

The Center for Applied Research fit a series of segmented logistic regression models to examine the effect of individuals' behaviors and attributes on outcomes of interest. This includes a series of models with the entire sample, but also segmented models dividing the sample by wealth level. The reasoning for dividing the sample by wealth level is that it is the best control for exogenous conditions and pressures facing these investors as well as the way the industry approaches and services them.

The financial literacy score is a sum of correct responses for eight financial literacy related questions. Correct responses are assigned a value of 1, while incorrect responses are assigned a value of zero.

The Self-Determination Needs Fulfillment score is based upon a total of nine questions: three about autonomy, three about relatedness, and three about competency.

Affirmative positive responses ranging {4:5} are assigned a score of 1, while negative responses ranging {1:3} are assigned a score of zero. Respondents were assigned autonomy, relatedness and competency scores, each representing the sum of positive responses to corresponding questions. The composite Self-Determination score is the sum of the autonomy, relatedness and competency scores.

The independent variables for age and financial literacy score were left as continuous. Each dependent variable was based on ordinal Likert scale of {1:5}. Each dependent variable was then coerced to a binary {0,1} where a zero represents Likert responses between {0:3} and a 1 represents Likert responses of {4:5}. This is intended to reduce subjectivity between discrete intervals, and also to fit a logistic model with fewer assumptions than an ordered logistic model.

After fitting models with the aggregate sample, the entire process was then repeated for each wealth level: mass market (<US $250,000 investible assets), mass affluent (US $250,000 - $999,999 investible assets), and high net worth (> US $1 million investible assets).

- What more can I do to give all employees in my organization the confidence to express their opinions freely, to ask challenging questions and to make bold proposals?
- What barriers stand in the way of employees having this confidence? How can I remove them?
- What more can I do to listen to clients and to understand their needs?
- What more can I do to listen to other stakeholders?
- How do I support my employees to listen more and better?
- What do I do to develop my own ability to listen more and better?

- How do I do encourage employees to question unspoken assumptions and beliefs that may obstruct learning? Am I willing to make changes when I hear difficult feedback?
- How do I learn from my employees?
- How do I learn from my clients?
- How do I learn from other stakeholders?
- How do I learn how to learn better?

- What more can I do to support employees to achieve their goals?
- What is my own purpose? What is my organization's purpose? How do I inspire people with this vision?
- What more can I do to communicate the vision of the changes my organization needs to make?
- How do I question unspoken assumptions and beliefs that may obstruct my learning?
- What more can I do to develop myself as a leader?

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The Center for Applied Research (CAR) conducts targeted research that provides strategic insights into issues shaping the future of the investment industry. CAR brings together resources within the industry and across State Street to produce timely research on the topics that are most important to investors worldwide.

CAR is an in-house think tank that resides at State Street's corporate level and comprises a global team of researchers. We select our research topics based on input from global investment management industry professionals.

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CoreData

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7. Of the 521 (53% of the total surveyed) investment professionals (both asset owners and asset managers) that said "low levels of trust among clients" was a problem affecting the industry.

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