

# **Research Affiliates**

## **Prioritizing Culture in a Time of Growth**

Final Report

Managing in Information-Intensive Companies

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# 1 Executive Summary

We investigated how Research Affiliates has been handling the corporate culture during its growth stage. We have interviewed two managers - one mid-level, and one senior - in order to gain a view into how the management thinks and acts on topics related to the corporate culture.

We found that the process of building and maintaining corporate culture at Research Affiliates has been initiated from the top (specifically, the founders), and that an entire process has been created to achieve the culture-related objectives. In particular, the firm hired a culture consultant, holds regular training sessions on culture, and evaluates culture through anonymous surveys.

Furthermore, the management appears to consider culture a critical asset of the firm, and therefore they are willing to invest substantial time and money into this asset.

We found that the current managers have experienced culture issues at the firm, and use this experience to improve culture through hiring and through maintaining a positive environment for its employees.

## 2 Company Background

Research Affiliates, LLC. is an investment management firm based in Newport Beach, California. It was founded in 2002 by Rob Arnott and co-founder Jason Hsu. The organization started off with about 5 people and has grown to 80 people. Up to date, \$169 billion in assets are being managed around the world with investment strategies created by the firm.

The firm is comprised of 4 main groups: investment management, research, sales, and technology.

In 2014, Research Affiliates had a reorganization. At the head of the company, is Rob Arnott who is the Chief Executive Officer and Chairman, Jason Hsu who was formerly Chief Investment Officer is now the Vice Chairman, Katrina Sherrerd is the President and Chief Operating Officer,

and Chris Brightman is the Chief Investment Officer.

### **3 Research Questions**

What are the cultural problems faced by Research Affiliates as it grows from a startup to a mid-size company? How does the management deal with these problems?

### **4 Problem Statement**

As of the date of the interview on Friday, April 18 2014, Jason Hsu was the Chief Investment Officer. During that time he was primarily responsible for managing the Research and Investment Management Group at the company.

One could assume that he spends all of his time evaluating financial investment strategies for the firm's clients, but in reality he does something for the company that goes far and beyond the responsibilities delegated to him by his role. Over the last seven years, Jason has been key in building the culture of a company that grew from a handful employees to 80 people and \$100B+ in assets in just a few years.

When the company was very small, it was easy to manage culture. Everyone knew everyone, and the time working together reinforced the relationship. As the company started hiring aggressively to catch up to its success in the market, a problem arose. The new employees often had very limited connection to the existing employees. They often came from different backgrounds and had different values and culture. As a result, the company started to suffer from the typical cultural issues that are part of the growing pains of any startup.

After observing the difficulties caused by the lack of strong common culture, Jason and the company's founder, Rob Arnott, decided to devote a huge amount of effort - both in terms of management time and in terms of money - to building and maintaining a healthy culture. They

spent a lot of time understanding what they want the company to be, i.e., what values they shared, how they would like people to feel in the company, and so on. These efforts never stop; as the company grows, so do its employees - personally and professionally.

The company management has agreed on the following core values of the firm:

***Authenticity:*** *We reveal our intentions, speak candidly and honor our word.*

***Curiosity:*** *We emphasize learning, seek feedback, and welcome independent views.*

***Responsibility:*** *We own our actions and solve problems.*

***Collaboration:*** *We create shared success by partnering with colleagues and clients.*

Why does this matter? A company's culture is at the heart of performance and livelihood, because it determines how things are done and how people behave; in many ways a culture is the hardest thing for competitors to copy.

The road of establishing company culture is not smooth. Employees with negative attitudes, low morale, and a lack of interest in the corporate success, have appeared at different times - and their behavior is contagious. As Jason put it, *"One of the big, big harms that we were alerted to was gossip. People colluding together to gossip about others. They tend to sympathize with each other, like victimhood. So on and so forth. And the idea is that if you do not say what you have to say to someone. What you'll do is two things: Either you'll swallow it, and then have this projection about the person, and you can never get that out of the system. Or you share it with everyone else in the firm, and then that is even worse, right? You are now creating projections for everyone around this one person. It's a dangerous evil."*

Over time, people increasingly began to work in silos and distance themselves from others due to resentment over things that they may have overheard from "water cooler" gossip. There was little opportunity, if any, for someone to voice their opinion. This unfortunate pessimism continued to cultivate and as a result, people became overly suspicious of each other. There was no longer a work environment that fostered trust; rather, it was one of paranoia: *"There was a lot 'Gotcha!' type of fear in the company. That kind of dysfunction was across the board, all the way from the most senior down to, of course, folks in the trenches,"* explained, Jason. Culture fit challenges led the company to part ways with a number of employees, who were sometimes very senior.

## Four Basic Types of Corporate Culture

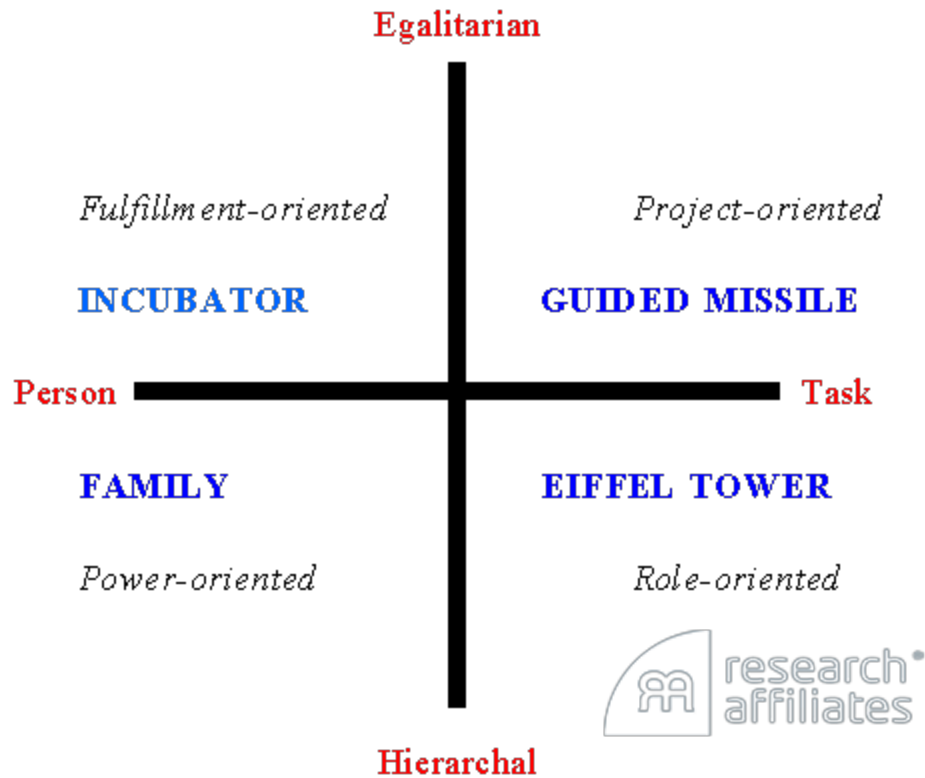


Table 1: Current positioning on RA's culture axis

Based on our analysis, Research Affiliates fell into the Hierarchal and Task-oriented quadrant on the Basic Corporate Culture. So what did Jason and his peers do to ignite an extraordinary difference in the mid-sized firm's corporate culture? We explored this, and recommended areas of improvement.

## 5 Analysis and Solutions

In an effort to stop the culture bleed, Research Affiliates hired a "culture consultant", a specialist and trainer who works closely with executives to transform their organizational culture. The

consultant came to the office for 2-3 days each month to observe patterns of behavior that contribute to negativity in the workplace. He assessed the issues and ultimately proposed a plan of modification through phases of practice, observation, correction, and repetition.

Many of the tactics that Jason created to improve the company culture fell into a process that covered the following four areas: hiring new employees, managing expectations with current employees, building trust and communication, and reflecting and improving on his learnings.

## 5.1 Hiring New Employees

Jason recognized that a quick way to have an impact was to increase hiring standards and actively solve for culture fit: *“At the firm we have created a **culture committee**. Their job is not to assess if someone is actually technically capable, so that’s a whole different team. The culture committee have been trained by our external consultant to identify red flags around sort of culture issues. Now again... these people are not the culture consultant, so they are not as skilled, but there is a group of 12 people who spend a day or two interviewing around culture issues and trying to tease that out. It is not 100% accurate, but i think it’s a fairly good attempt. In a case where it is a very high stake hire, we will have the external culture consultant to do the interview, and give us an assessment and that really is a very high quality assessment.”* This approach allowed teams to proactively evaluate whether someone would be a good fit on different levels, and presumably only pass on higher quality candidates that would contribute positively to the overall culture.

New employees that join the company are put through training that further centers around the corporate culture and company values. These hires are acclimated on the vision of the company; one that is atypical of most investment firms. Unlike the common, “Hey, we manage money, grow assets, and get a big bonus..Come work here because you’ll make money.” Jason does not believe that it is not enough just to be paid well to get people excited. People have to be energetic about the big thing that gives meaning and purpose. *“We could say, we want to grow to a trillion dollars, or we want a company value of 2 billion dollars, and so on and so forth, but that’s not what we landed on. Instead it’s something like, ‘We would like to be Vanguard 2.0 because Vanguard popularized the concept of low cost index mutual funds...their mutual funds are 5*

*times less expensive than their competitors. Now, that's a powerful, purposeful mission that I think people who work at Research Affiliates could rally around."*

Lastly, the importance of unifying employees over an aspirational vision and striving to improve culture does not end there. New employees must also attend training that consists of a two hour talk around the dangers of gossip, withholding your thoughts, projection, blame, defensiveness, and other such significant topics. *"People would say, at least at your firm it looks like there is an honest effort to get good at the values, not that you're perfect, but it feels like it's something people care enough to make an effort at it, management cares enough to make an effort at it...and not just lip service."*

## **5.2 Resetting expectations with current employees**

Another realization that Jason made was that self-awareness and tolerance for risk by current employees needed to be addressed; both are critical facets of fast-paced, leading companies. Gossiping and negative attitudes had led employees to feel like they should not speak up or voice a different opinion for fear of retribution. *"It's not so much we discourage it, as we explain it to people that we have almost made it that withholding information or self selecting who to tell is sort of unethical in our culture," said Jason, "If an employee had something that they wanted to say to someone, they should assume it's a safe environment to do so without repercussions. Of course, to some extent. We make the point that it's a violation of the company culture to not go and talk to the person directly."* In fact, the consultant asked the executives to tell employees that if they have feedback for someone, they should assume it's safe to share. It doesn't have to be either correct or wise. And if they are given feedback, the first thing they are supposed to do is say "thank you".

Instilling an environment of openness, risk taking and self-awareness is an audacious goal; without it, the company would not be able to move forward both culturally and financially. Another way that Jason sought to bring this behavior to life was through company retreats. Twice a year the executive team would go on retreats with the culture consultant to work on basic skills that are quite obvious, but hard to do well. *"...such as, to build an organization without fear, build an organization without blame, encourage people to not withhold information, not withhold thoughts,*

*and be willing to share them authentically even if there is some risk and danger in sharing their ideas.”*

### **5.3 Building Trust and Communication**

Jason sought to trust and open communication among all employees. Building these qualities into the company culture was important in terms of establishing long-term happiness and return. Jason knew the benefits of building trust with others firsthand: “...*you have spent enough time over the course of multiple years to build up trust, so people trust that what you are telling them is not half-fact, you are not withholding information, trying to manipulate them. You gotta build that. If you don't have that, again, good luck. Once you have trust in a relationship, then it's about, again, reinforcing that, 'Hey, i'm sharing the facts with you, and I'm also sharing my opinion as to why doing this would make sense for you'.*” Building up a reserve of trust over a very long time, and not violating that, is going to be an important currency of influence.

Another angle that Jason sought to address in the pursuit of a culture of trust and communication was through the executive team and managers. Once every quarter, there is an all-hands training where lessons and seminars are held firm-wide. Furthermore, a full day is dedicated towards one-on-one for employees and senior executives to give everyone the opportunity, most importantly, to assess their personal goals on a regular basis to ensure culture and happiness are in alignment. Furthermore, an annual 360 review conducted by each manager specifically talk about culture, without setting mandates of compliancy. “*We don't want to create a culture of compliance. Right? Compliance has that yucky feeling where you're forcing it on someone, and they just have to, whether they believe it or not, play along, and that's not what we want. We want you to share a set of values, and so we do not want to have any rigidity around that, otherwise you create not alignment, but compliance. We tend to let each manager have his own approach to encourage, and to foster, culture.*” The only requirement is that the managers put an evaluation of culture fit as a top priority, on par with performance and merit.

### **5.4 Reflecting and Improving**



It takes a long time to understand the subtleties of people's actions that can leave abiding damage to a company's culture. Often times, what people believe to be a positive reinforcing behavior, such as 'holding one accountable', can have really negative consequences that are not apparent until the person can stop and reflect on the changing outcomes.

*"We're obviously a group of reasonably intelligent, highly educated people, and the culture coach is telling us, "Don't blame people." Lots of bad consequences when you blame people, and then of course we go, "We don't blame people; we're just holding people accountable. Someone makes a stupid mistake and we need to tell him that he made a mistake, and don't do it again, and so it's just holding people accountable." But then it took awhile for us to realize, actually most of us are not interested in really learning from a mistake, and preventing it from happening again. We're mostly interested in, we're angry and pissed off and we want to blame someone."*

Improving can only come after the problem has been identified, but it still requires tremendous effort as most behavior changes do. There is no holy grail book that tells people how to end blame and still persist the feeling of accountability. It takes holding many meetings, doing one-on-ones, talking about issues with a coach, and having someone in real-time give you feedback. "There should be someone who can say, 'Did you notice that your real intention is just to blame someone?' And you sort of catch yourself and go, 'Huh? maybe that is true.' A lot of self-awareness training just takes time, and it does take a coach to help you become aware of things like that. Become aware of your true intentions without taking shortcuts."

## **5.5 Validating**

As the Senior Vice President and Head of Index Research at Research Affiliates, Max Moroz is responsible for researching and software development for the Investment Management Group at the company. He seemed like the perfect person to validate the change the Jason brought about in the firm.

### **Policy on Hiring**

Upon hearing Max's response on how he hired people for his group, it was abundantly clear that

Max had ingrained the kind of policy that Jason had envisioned for the firm: *“The process of hiring is relatively strong on the cultural elements. We have, of course, interviews that make sure that the person has the skills that are sufficient for the position. But in addition we have a pretty serious emphasis on whether we think the prospective candidate would be somebody who will help us maintain the culture of the firm, and, in fact, the culture of the group as well”*

A lot of emphasis is laid on the role of the culture committee in the hiring process, that conducts a series of interviews with a candidate along with the hiring manager and the chairman of the company. This seemed especially unique to the company, the practice of having the chairman contribute to the process for every potential employee. It was also clear that the recommendations of this committee were pretty determinative of the hiring decision, *“(if) a part of the culture committee feels that the person is either too aggressive for our firm, or he is too focused on kind of sole contributions rather than teamwork, or his goals are very weird, or not something we can relate to or his personality is something that they would think that will be very hard to work with, if that feedback is coming from several people on the interview committee myself as the hiring manager would feel not that great, we would really give second thoughts to hiring the person, regardless of his technical skills”*, explained Max, when we asked him about the weight of the recommendations of the culture committee.

## **Expectation Setting and Culture of Teams**

Max seemed to distinguish culture from style quite a few times and explained that the kind of work a particular group does goes a long way in determining the particular style of the group; while the legal and compliance group may have to focus on elimination of risk and identification of potential problems, they would not be too concerned with experimentation and learning through mistakes – which is what his team in research encourages.

His team includes three developers and one analyst, and Max was quick to point out that he doesn't view his team as an intellectually homogenous group. Distinguishing their individual personalities, Max explained that as a manager, he likes to understand the people who work for him, which enables him to identify a way to ensure that everyone retains their individualities while learning and imbibing the company culture - all in an effort to function smoothly and increase productivity and efficiency. In this regard, he said *“I personally try to encourage people to be very*

*curious and very open about their questions and concerns, and I try my best to have them talk about what they think without them worrying about if it is correct or not correct.”*

Max went on to explain that he encouraged an informal approach to working which included fewer meeting and more ownership and responsibility - *“I do not go out proactively and tell them, “Hey guys... let’s kind of catch up, who has been doing what? What is the progress? Why are you behind?””*. He recognizes that different teams may not necessarily follow this approach, but that’s why every team or group has its own distinctive style. He believes his style works pretty well for his group where he wants people to take ownership and work as they see fit without being pressured constantly by bureaucratic red-tapism in the office.

After hearing his detailed description of his team and its culture, it becomes apparent once again that Max, in his own way, is incorporating Jason’s idea of a safe, open, and curious workplace atmosphere in his team.

### **Trust, Communication, and Conflict Management**

Max’s personal philosophy on conflict resolution is to “go outside, fight it out, and resolve it” which reflects the openness and trust in office communication that Jason also spoke about. However, he quickly clarifies that there has never been a chance of conflict in his team, and he gives the culture team a lot of credit for that happening.

*“Now, if people are not nice, they always find a reason to dislike each other, but if people are reasonably nice, usually conflicts don’t arise... so unless people are actually really mean - we try to not hire people who are really mean - and the company does not have that much stress or pressure, usually people don’t really have conflict, especially within a small team”*

Despite that, Max recognizes that when people interact in any social setting, some sort of conflict is inevitable, and even though it hasn’t yet occurred in his team, he himself, as part of other teams, has experienced conflicts. He is unwilling to share too many details about them however, even upon repeated questioning, and that gives an insight into the kind of loyalty he has towards the people he works with, even the ones he has had conflicts with. Furthermore, it emphasizes quite strongly, the trust and security of open communication employees of

Research Affiliates enjoy without any fear. Max gives a rather measured analysis of the reasons behind conflicts at workplaces.

*“I guess I would say there are two types of conflicts: First, a conflict because of one person being really incompatible with others. Some people you just talk to them like, ‘No way, this is not how you do things. This is not how you communicate with people. That is just wrong.’ There is nothing you can do in this case... you could try to avoid the conflict, you could try to recognize that there is a conflict and work with it and try to minimize the chances that you would actually argue about something, you could ask other people to kind of help you with the project so that you do not have to work directly with that person, but that is very tough. The other type of conflict is when you can see where the other person is coming from, so you can actually kind of respect his position, you just really, really disagree with whatever he has done, so you are really angry that he, for example, might have taken credit for what you think should be your work”*

For a third time, Max’s responses resonate strongly with Jason’s vision for the company, and it can be concluded that Jason’s work has not only paid off economically for the company, but it has also managed to create a unique place for Research Affiliates as one of those few companies in the financial investments sector, that has a positive and productivity enhancing culture permeating through the walls of its offices.

## Four Basic Types of Corporate Culture

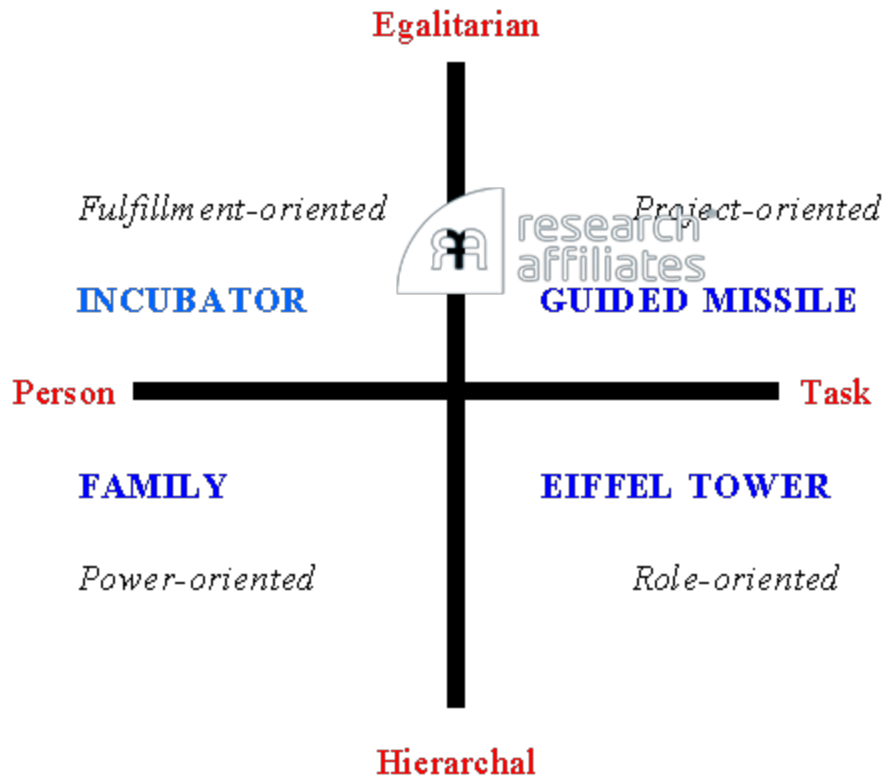


Table 1: New positioning on RA's culture axis

With the solutions Jason implemented and through the efforts Max and other managers instilled, Research Affiliates' has repositioned itself towards the upper-right quadrant of Table 1.

## 6 Recommendations

We recommend that the company management promote the values it chose by living them personally. The best way for employees to relate to the values is to see their superiors act in ways that support those values.

In addition, we believe that as the company continues to grow, the senior management may need to recruit help from among veteran employees in promoting corporate culture. It is difficult

for senior executives to know everything about how the 80 employees think and feel; it is impossible when the number of employees measures in the hundreds or thousands. Therefore, the senior management would need to rely more on middle management and some individual employees to help keep the company culture strong and cohesive.

Finally, while it is very important for the senior executives to have anonymous surveys and feedback from employees, nothing can replace the individual touch. If the senior executives remain approachable and friendly to employees, and find time to spend with employees at different levels of the firm, they are more likely to learn about issues before they becomes serious problems.

## **7 Conclusion**

Research Affiliates as an investment management firm has some unique qualities that make the firm stand out from other firms, in that their sole focus was not building the wealth of their company during a time when the company was growing, but on the people and culture of their company.

From the interviews we had with Jason and Max, we concluded that the firm's management is acutely aware of how culture can make or break a company, and how the stage of fast growth is particularly prone to problems with the culture.

We found that the senior management treats culture as a valuable resource and a competitive advantage for Research Affiliates.

The approach chosen by the senior management in building and maintaining the company culture is based on the recommendation of the culture consultant, the culture committee, as well as the personal beliefs of the senior partners.

Note that our evaluation is based solely on the interviews of senior managers, and may therefore be biased. That said, we did our best to be objective in interpreting the interviews.

## 8 Appendix

### Interviewees

- Jason Hsu | Vice Chairman/CIO | 70 minutes on 04//2014
- Max Moroz | Senior Vice President, Head of Index Research | 65 minutes on 04//2014

### Websources

- <http://www.researchaffiliates.com/Our%20Firm/About%20Us/Pages/Home.aspx>
- <http://www.forbes.com/sites/tomanderson/2013/06/05/has-rob-arnott-built-a-better-index-fund/>
- <http://www.linkedin.com/company/research-affiliates>