



CFA Institute®
Future of Finance

THE FUTURE OF WORK IN INVESTMENT MANAGEMENT



**CHANGING
ORGANIZATIONAL
CULTURES**

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EXECUTIVE SUMMARY

The Future of Work in Investment Management research series examines the consequences of the forced experiment in remote work, the lessons learned along the way from shifts in work patterns and practices, and how the social changes in workers' attitudes and expectations have set the stage for a new model of working. In *The Future of Work in Investment Management: Context of Careers*, we described the shift to, and implications of, hybrid work in investment management organizations. In this report, we apply that context to focus on organizational cultures and examine the changes industry leaders must embrace to create effective cultural models and behaviors in the new world of work.

If we use the lenses of investment organizations' work, workers, and workplaces, they all look enormously different from their pre-COVID appearance. Thus far, most return-to-work plans are still developing amid uncertainties, but even these early versions look significantly different from their pre-COVID appearance in many markets. In the face of this re-orientation, we explore the cultural changes the investment industry is experiencing and is likely to experience in the future. Drawing on insights from industry leaders, we provide recommendations on how to adapt investment organization cultures to be more successful in fulfilling stakeholder goals in the future.

This report is intended for senior executives concerned with building more effective, cohesive, and purposeful cultures and teams as they address the realities of the future of work. The insights gleaned also provide direction for aspiring industry leaders and other senior professionals in leadership roles.

As the workplace and work schedules change, the resulting hybrid arrangements are taking on somewhat "messy" characteristics, as one leader noted. These arrangements require a distinct mindset shift with new approaches to roles, creativity, and teamwork. As one of the experts we consulted said, "we are redefining key cultural features like trust and inclusion." In most investment organizations, it is not a question of whether the culture will adapt but how dramatic a change it will be. For a stronger culture to emerge, leaders must manage the transition to a more adaptive, agile, and inclusive organization.

Culture is a highly connected subject and should not be evaluated in isolation. It is best considered alongside such subjects as leadership, governance,

talent, technology, vision, and strategy. These factors all influence organizational behaviors and outcomes. Although most leaders recognize culture as extremely important, it has been one of the least understood and least actively managed leadership areas in the investment industry, which emphasizes the urgency for a cultural re-evaluation.

Although the pandemic-enforced revolution in work practices was an unforeseen disruption to the system, investment leaders now have the opportunity to reset culture with greater intention, bringing together the best elements of the recent circumstances and their organization's distinctive identity.

Key findings include the following:

1. The culture of the investment industry overall very often constrains *innovation*. The industry has historically been hesitant to experiment and take initiative without the catalyst of a crisis, which makes it more difficult to see the opportunities to adapt. We must practice agility and experimentation.
2. The organizational culture reset will be difficult, and *purpose*-driven leadership will be needed. While the ideal organizational culture will vary, cultural effectiveness should focus on *performance* in the pursuit of multiple stakeholders' goals.
3. *Talent* and *leadership* are essential to a culture, and investment organizations should capture and develop the discretionary efforts of an empowered workforce.
4. The new *sustainability* paradigm makes cultural adaptation more urgent. The 3D challenge of blending risk, return, and real-world impact requires a cultural commitment to sustainability through the lens of professional excellence and organizational values.
5. The cultural challenge of how to use *technology* to its fullest advantage is unfinished work. We find promise in T-shaped teams, in which investment professionals work alongside technology experts as peers.
6. Culture is shaped by top-down organizational messages and bottom-up team experiences. The investment industry has an opportunity to build more effective teams through the power of *inclusion* that values the combinatorial benefits of diversity.

Methodology

The culture metrics of interest to leaders are often soft data, meaning they are materially relevant but are potentially contested because they come from assessment, opinion, experience, or interpretation or through subjective modeling,¹ such as employee engagement surveys and customer feedback. These can be combined with talent acquisition and retention data to form a partial but not wholly satisfactory picture.

Here, we include survey data from a combined 9,000 investment professionals globally across two surveys ("Future of Work surveys" hereafter) of CFA Institute members² conducted between March and May 2021. The main research focus, however, is on qualitative input from a group of industry leaders who have experience leading organizations and shaping cultures. These experts were consulted in individual interviews. In this research, we look at culture alongside the following other factors: innovation, purpose and performance, leadership talent, sustainability, technology, and inclusion.

The experts were asked for their views on how the industry's culture has developed, a current cultural assessment, and the likely and desirable pathways for the future.

The Panel of Experts

We are grateful to the following experts for their contributions to this report.

Alex Birkin is the EMEA financial services consulting leader and managing partner for EY, and in this role, he is responsible for some of EY's largest European clients. Consequently, he is in regular contact with leading investment organizations around the world. Mr. Birkin is also a member of the CFA Institute Board of Governors.

Daryn Dodson is managing partner of Illumen Capital and serves as a board member at Ben & Jerry's. Mr. Dodson works with impact investors in addressing the world's most pressing social and environmental problems, and he is a member of the CFA Institute Future of Finance Advisory Council.

Carol Geremia is president and head of Global Distribution at MFS Investment Management (MFS). Ms. Geremia is a passionate advocate of long-term investing with a particular focus on fiduciary responsibility, stewardship, and sustainability.

Marisa Hall is co-head of the Thinking Ahead Institute at Willis Towers Watson. Ms. Hall works on thought leadership themes, including the subjects of culture and diversity, equity, and inclusion (DEI). She is a powerful advocate for change through her work on Investment 20/20 and the steering committee of the #talkaboutblack movement.

Jean Hynes, CFA, is the chief executive officer of Wellington Management. She leads an organization that has made its culture a key differentiator and competitive advantage and has frequently spoken of the power of culture to drive outstanding results.

Angelien Kemna serves as a director on the board of AXA Group. Ms. Kemna was previously the chief investment officer and a member of the executive board of APG Group, and she has been a professor in corporate governance at Erasmus University. She is a former member of the CFA Institute Future of Finance Advisory Council.

Mark Lazberger, CFA, is the chair of the CFA Institute Board of Governors. Mr. Lazberger is also chairman of Omnia Capital Partners and a director of Yarra Capital. His previous roles were chief executive officer of Colonial First State Global Asset Management and leader of SSgA's international business.

Hiro Mizuno is the United Nations Special Envoy on Innovative Finance and Sustainable Investments. Mr. Mizuno was previously the chief investment officer of the Japan Government Pension Investment Fund (GPIF), the largest asset owner in the world. He is a member of the CFA Institute Future of Finance Advisory Council.

Ashby Monk is the executive director of the Stanford Research Initiative on Long-Term Investing. Mr. Monk is the co-founder and chairman of Long Game Savings and leads research at Addepar. He is a co-author of *The Technologized Investor*, and he is a member of the CFA Institute Future of Finance Advisory Council.

Alison Tarditi is the chief investment officer of the Australian Commonwealth Superannuation Corporation (CSC). Ms. Tarditi has also served as the chair of the World Economic Forum's Global Agenda Council on the Future of Investing. She is a member of the CFA Institute Future of Finance Advisory Council.

The interviews were conducted by **Roger Urwin, FSIP**, who is the global head of investment content at Willis Towers Watson and co-founder of the Thinking Ahead Institute. Mr. Urwin is also the past chair (2016–2021) of the CFA Institute Future of Finance Advisory Council.

INTRODUCTION

The virtual conditions that have characterized work in the pandemic period have prompted leaders to reconsider their organizational culture. Many see culture as an invisible force that guides you when there is no one to tell you what to do, which is resonant in virtual working. Many also see culture as a source of resilience in adverse circumstances—again, a resonant factor. We have seen that the most successful cultures in virtual conditions have been characterized by leaders who have increased the frequency of their communications and have been more transparent.

We seem to have evidence that the wholly remote arrangements worked nearly as well as the wholly office forerunner arrangements, and there is hope that the hybrid arrangement will be even more effective. It seems likely that culture will be the deciding factor. Either way, there are few indications that the industry will return to its previous culture and practices.

Virtual and hybrid models have had positive and negative effects on culture that provide helpful background for an examination of culture.

The positive aspects include the following:

- The *global participation* of the industry workforce has been expanded and streamlined. The global culture that previously depended on time- and cost-intensive travel has adapted to a more efficient "glocal" model of global skills and local delivery. It has created a more level playing field.
- The virtual and hybrid models as applied internally and externally in firm–client relationships have introduced some *efficiency gains*. "There have been significant improvements in the efficiency of sales and client service," one panel expert said. "Investment organizations have been able to service their clients better with more productivity than they could in the pre-COVID circumstances," said one expert.
- The employer–employee relationship has found a new balance. Organizational leaders are listening to *employees' needs* and wishes versus simply telling employees what the organization wants from them. So, the "give and get" in the employment deal has found a more generous

balance toward employees, which should help attract and retain more talent.

Challenges include the following:

- *Relationships and trust levels* have suffered in the absence of face-to-face encounters.
- The *onboarding of new workers* has been challenging. New workers were denied the benefits of personal engagements and structured on-site learning that enable new workers to acquire knowledge quickly about organizational culture.
- *Learning and development* has also suffered. Learning from co-workers through casual training—think of one-to-one engagement with a co-worker a few desks away—has been particularly difficult, and for many, learning was put on hold as the great work pile-up took precedence.
- *Staff retention* has been difficult. The higher staff turnover through the pandemic period has been memorialized by the term the "Great Resignation."³

The big work reset will challenge leaders. It will require new judgments, new expectations, and new narratives. New world-of-work decisions may be controversial, and good judgment will be challenged by complexity and disruption. Finally, we note the increasing appetite for transparency. Workers have found themselves feeling some physical disconnection but are only a click away from leadership through virtual contact.

As McKinsey & Company has reported,⁴ the investment industry is one that seems to have benefited relatively more than others from remote working since it is an intellectual capital industry. But every organization is different. And the differences are so big that the precise responses to the aforementioned gains and losses do not follow formulas. The reset of these elements and how leaders deal with them lie in the future because the hybrid model will involve further changes to culture. As one expert put it, "Maintaining culture in a hybrid model calls for a different type of leadership—one that is agile in increasing the span of control over people in a flatter structure." We are continually brought back to the

connectedness of the ecosystem we inhabit in our industry.

While the exact effects of practice changes are hard to know, they are easier to perceive and describe than the likely effects of culture change. And both of these changes will surely get bigger too. Where work culture previously evolved at a glacial pace of change, the pace has truly jumped since the pandemic. We have

seen in a year and a half the sort of change that would usually take a decade.

There is no one-size-fits-all approach, but there is a need for leadership wisdom. These are the observations and expectations of today's investment industry leaders about the choices that leaders for the future will need to make.

CULTURE AND INNOVATION

The investment industry's need for innovation is ever present, and with the need to integrate new technology and sustainability, it is more critical than ever. But the culture in our industry very often constrains innovation. We have *structural hurdles* in culture, such as a tendency toward conservatism and unpreparedness to experiment, that leave our industry with a pressing problem. It is particularly urgent to overcome these hurdles in the context of a new sustainability paradigm that makes the investment challenge much more difficult and nuanced.

For there to be an innovative culture, organizational norms have to be attuned to a number of critical attributes. It starts with a culture that promotes and rewards collaboration and creativity, that is entrepreneurial and has an ownership attitude, that has a clear focus on the marketplace and anticipates new market needs, that encourages and recognizes new ideas, that supports calculated risk taking, that has a bias toward taking action, and that is prepared to consider long time horizons and demonstrate patience.

For these traits to emerge, you need to welcome people in your organization who have natural advantages as creative contributors through T-shaped skills, in reference to their mix of subject depth (the vertical bar of the "T") and subject breadth (the horizontal bar of the "T"). While talented people with T-shaped skills are naturally in the majority in the lineups of innovative and creative teams, to address the most challenging industry issues, people with more specialized (or *I-shaped*) skills with unique knowledge will either be on the team or be accessed by the team. We look in the section titled "Culture and Technology" at how this approach applies to technology innovation.

While these are factors of culture and talent that differentiate organizations, there is one factor that seems to drive all organizations. This is the extraordinary power of necessity to drive innovation; one expert's view was that "the COVID crisis drove buckets of change and we had no choice but to respond." The movement to remote working forced organizations to innovate to a new way of working that was very different from prior practice.

But some aspects of this change were not so supportive of innovation. The remote working norms of virtual and hybrid working have had their limitations in supporting creativity. An innovation culture in

investment must be characterized by willingness to take risks, learn from failures, and respond quickly, and anecdotally it does not appear that innovation has been a beneficiary of remote working when it comes to these factors.

An expert cautioned that "it is harder to innovate in remote work circumstances." The thinking here is that innovation comes from *combination effects* between co-workers, which occur less often virtually than they do in the office, at the coffee station, or next to the water cooler. The brainstorming needed for creativity has not fared well under work-from-home conditions.

It is possible, though, that the hybrid environment will achieve benefits to creativity through wider participation and better speed of execution. There has been some disappointment that the workplace has lacked presence and atmosphere. The challenge is creating an environment and an employee experience that achieve a magnetic workplace. Can the office be more attractive than in prior periods or at least as magnetic as before? That is a key challenge.

We might expect creativity to improve in the future as individuals adapt and organizations bring greater discipline to their management approaches and choices. For example, one of our experts pointed to how growth in outsourcing activities and in the appetite for solutions from third-party firms has accelerated, and this is an example of adapting well to new circumstances.

And an open question raised was, "What might be the next burning platform to bring innovation back?" The burning platform metaphor, in which change is urgent because the status quo is untenable, applies well to some of the work currently underway by industry organizations on sustainability and net zero pledges ("Race to Zero").⁵

Our bold conclusion is that many investment organizations have the capability to innovate in challenging times, but the cultural factors at work often prevent new ideas from being properly implemented.

From our research, we see organizational values as more of a focus issue than the values of the investment professionals themselves. Research shows that investment professionals tend to embrace creativity and risk-taking attributes more than the general population. The higher propensity to take risks

indicates that the industry possesses the necessary human capital to foster innovation. The question is thus, Why is the industry not innovating more? We must address the cultural and structural impediments to innovation.

We suggest that further innovation on the future of work is required. As one panelist said, "Our muscle memory from the past is not enough; we are not going back to the old world." We need a new map for the new world. Creativity and planned risk taking should be supported and encouraged within investment management culture to manage to an uncertain future.

Guidance for Investment Leaders

- **Use burning platforms:** These can allow organizations to innovate more quickly by using the incentives that these create to build commitment to change and counteract the natural human hesitancy toward change.
- **Practice creativity:** Tap into the natural inclinations of investment professionals to be creative and take risks to build innovation into the culture.

CULTURE, PURPOSE, AND PERFORMANCE

Purpose is a small word with a big future. Most investment organizations were passive participants in the shareholder capitalism paradigm of the last few decades, but we now see a movement for change requiring firms to act more deliberately to satisfy end investors' wishes and to achieve positive outcomes for multiple stakeholders. A strong underlying purpose is the critical differentiator.

In pursuing a purpose that resonates more than its forerunners, organizations can find a stronger employee value proposition with which to attract and retain talent. One expert's opinion here was that in the investment industry, "there are strong trends in the appetite for meaningful work."

This sentiment is reflected in data from the Future of Work surveys. **Exhibit 1** provides some insight into the motivations of investment professionals; respondents were more likely to align with the idea of doing something good for society than finding importance in being rich. Compared with global responses from the World Values Survey,⁹ investment professionals value being rich *less* than the general population and value doing good for the benefit of society *more*

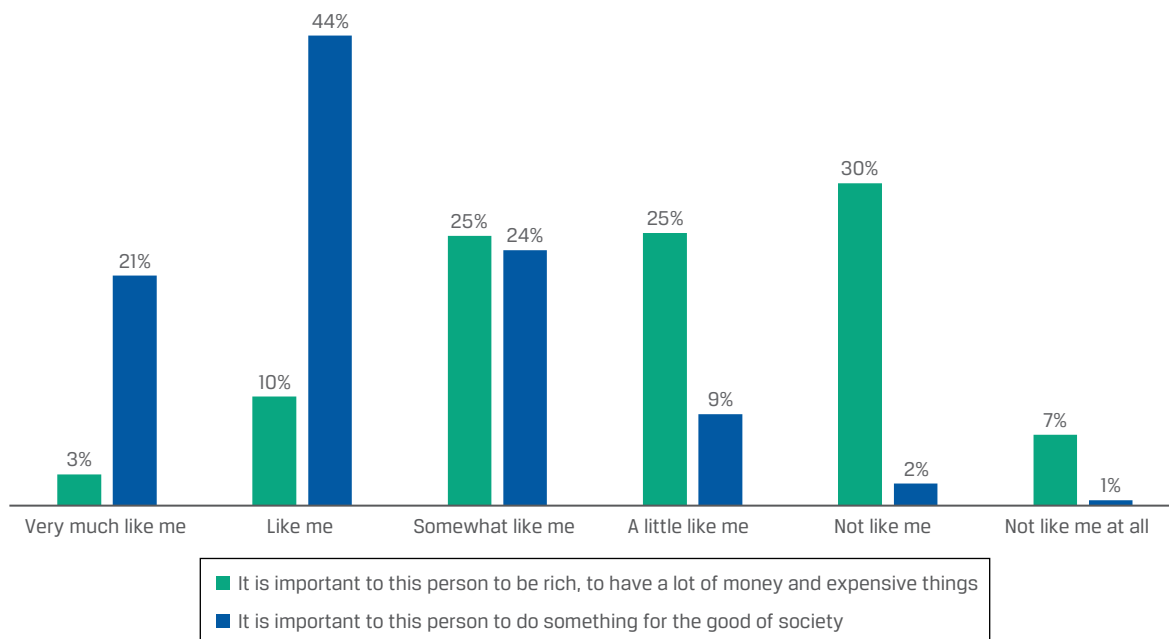
than the general population. The fact that investment professionals prioritize impact and purpose over wealth may be a surprise to many, given the typical characterization of investment professionals, although the marginal utility of income may be a factor.

What does this mean for investment organizations? They can capitalize on this opportunity to align organizational impact with the desire of their employees.

Investment organizations did not ignore that they had multiple stakeholders in the past, but there is now less concentration on one key constituent—the self or the shareholder—and more regard for wider stakeholders in a transcendent shift toward a greater good.

The asset owners have always been more focused on purpose and are leading the way. This expert opinion is currently resonant: "The asset owners are happy to deliver value for the end investors, directly as always in their financial outcomes but also indirectly in terms of outcomes for the social and natural environments on which they depend."

EXHIBIT 1. IMPORTANCE OF BEING RICH COMPARED WITH DOING GOOD FOR SOCIETY



Note: N = 3,334.

Source: Future of Work surveys.

For asset managers, there are more complex motivations at work, with "a battle between purpose, your own professional pride, and your pay." The link between pay and business performance explains how much attention is given to the latter. Asset managers will have to wrestle with how they often define their professionalism through the lens of delivering on financial results as opposed to through client and other stakeholder outcomes.

Many of our experts believed that most asset managers continue with their unbalanced culture of putting self above client. Incentives matter. This lack of balance makes the industry relationships between asset managers and asset owners flimsy and more transitory than is desirable because there are intrinsically different values at play. One expert expressed the view that "the misalignments in the investment chain are growing with increasing short-termism." On this point, the attitude of a firm toward sustainability may be a good indicator of its ability to attain a better balance, something we discuss further in the section titled "Culture and Sustainability."

Not all asset managers are the same in this respect. One expert expressed it this way: "Some organizations have more going for them. For example, insurance companies are leading proponents of sustainability, and this rubs off in much more emphasis on workforce growth and employee experience."

We are in the early days, but it appears there are more asset management firms revising their purpose to be more expansive and being authentic to the new vision.

There are two ways that wider purpose is affecting organizational culture. First, there is more emphasis on the organization's workers, which is showing up in heightened attention to workforce issues. Here, the personal challenges, such as growth and well-being, and societal challenges, such as racial and gender equity, are prominent. The vision is that the organizational culture supports the personal growth and achievements of a diverse and talented workforce. Such cultures are empowering, purposeful, and highly inclusive and trusting. The sections titled "Culture and Leadership Talent" and "Culture and Inclusion" explore these areas further.

Second, purpose involves giving explicit respect and priority to wider societal factors, such as sustainability. Organizations are making pledges to support different efforts and to show their impact, and these commitments should be consistent with their culture. The section titled "Culture and Sustainability" explores this point further.

One factor in this cultural dimension is the preparedness to collaborate. The complex and interdependent systemic risks that investors must bear have prompted a stronger "culture of co-operation," as one of our experts emphasized. What is clear in considering the major systemic challenges, such as climate change, financial stability, and social stability, is that contributions to overcoming these challenges are best made in concert with others over appropriately long time horizons. The typical investment objective, founded on economic theory, is to optimize outcomes for the individual, not the system. But now, through a collective action mindset, there are growing numbers of industry players trying to avoid potentially irreversible damage occurring to our most important systems—applying "doing what we can with what we've got" principles and actions. A culture of co-operation is a systemic response to a set of systemic problems.

As one expert said, "Having a long-term view is the right thing to do if you're caring for something that's not yours as a fiduciary." In areas of mutual dependence, the best actions are coordinated ones.⁷

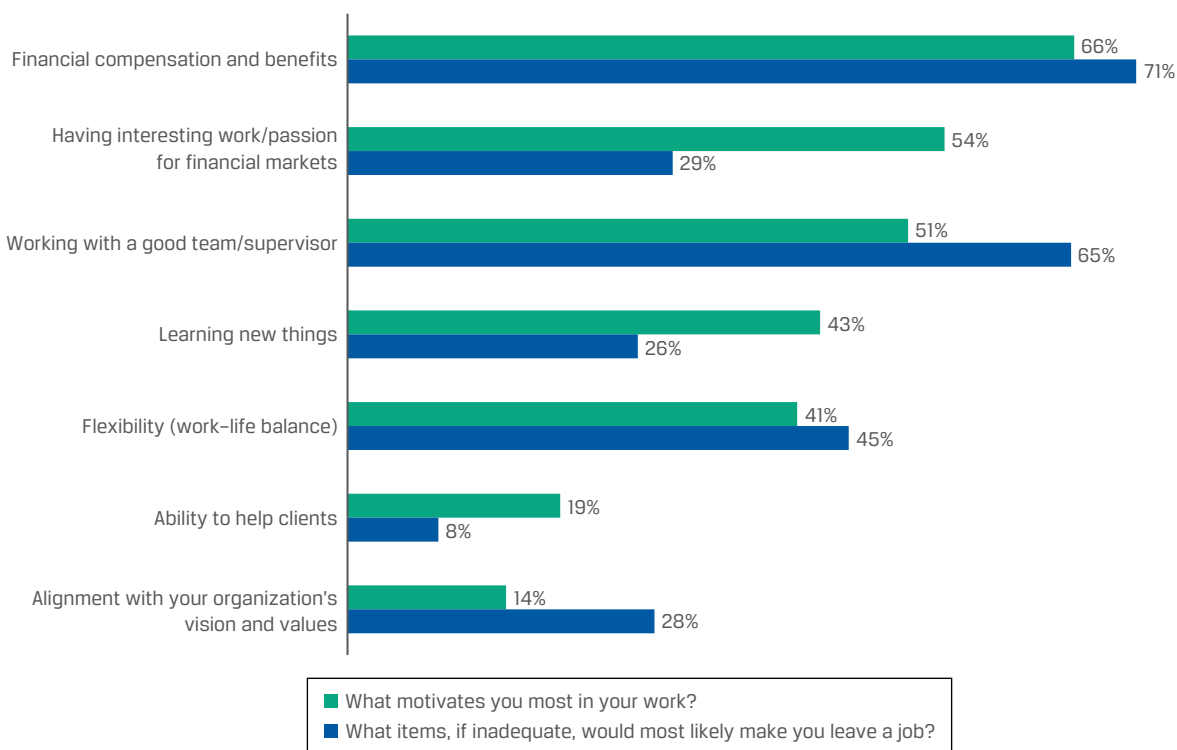
In finding big links from culture to purpose, we should also identify the *links from culture to performance*. The investment industry is motivated by several types of performance: business results, investment results, and sustainability results through people and planet outcomes. Securing exceptional performance in any of these areas will be influenced by culture as one of the elements that act to magnify personal and group endeavors toward collective goals.

Organizations that are performance focused often measure shortsightedly. The industry is often tempted to measure the convenient, not the meaningful. Intrinsic belief in the outcomes of long-term sustainable value should be well ahead of a quarter's results. As one expert said, "Our culture should be linked to achieving outcomes."

Governance also counts significantly toward strong performance. Perhaps tellingly, culture steps in where governance is weak. And when governance exerts too large a grip, it can diminish culture. Governance and culture are connected like two sides of the same coin.

We believe these issues will increasingly intersect with motivational factors. Steven Landsburg's one-line definition of economics was, "People respond to incentives; the rest is commentary." At a practical level, organizations are unlikely to succeed without repeated efforts to fine-tune and improve compensation design and other incentives.

EXHIBIT 2. MOTIVATION AND RETENTION FACTORS



Note: N = 3,756.

Source: Future of Work surveys.

However, there are other means of motivation and retention that carry significant weight, and organizations can focus on these to drive employee engagement. Data from our Future of Work surveys illustrated in **Exhibit 2** show that while financial compensation is still the primary motivator and main reason an employee would leave an organization, purpose-driven motivators play a key role in engaging and retaining high-performing employees. Passion for financial markets, working for a strong team with good leadership, and learning new things are all critical aspects of employee motivation within investment management. Additionally, organizational culture is a key driver of employee retention, with more than one-quarter of respondents saying they would consider leaving their organization if their personal vision and values did not align with those of their organization.

Culture is also central to team performance, where inclusion and trust play very significant roles. Teams function best when their members are highly engaged, their voices are heard, and their identity is appreciated.

High-performing teams are also characterized by a commitment to trust that fosters genuine engagement. These factors determine the individual commitment to a group effort, and as one expert said, "None of us is as smart as all of us."

Regarding what is next for organizations, we suggest that further work on purpose and vision is highly desirable. As one of our panelists said, "Organizations don't ask themselves enough why they exist."

Guidance for Investment Leaders

- Ask the tough questions: Review why your organization exists and the shape and texture of its identity, including its purpose and vision, history and legacy, and artifacts and stories.
- Take a balanced approach to compensation: Compensation requires successive iterations to strike the right balance that is not unduly geared to commercial success and has more stakeholder components.

CULTURE AND LEADERSHIP TALENT

"The war for talent is over; talent has won," commented one of our experts. This is consistent with the view from an executive recruiter who said the war for talent has not been this challenging for firms since 2006–2007, but employee motivations today are different. Now it is all about purpose.⁸

Our cultural comments on talent start with the generational differences. There are the special needs and wishes of millennials and members of Generation Z when it comes to culture. Work–life balance has given way to work–life integration, which many professionals in these generations view as a top priority and one that their employer should support. Organizations will have an edge if they can show their human-first characteristics in all their thinking and actions.

In the CFA Institute *Investment Professional of the Future* report, the key alliance terms between the employer and the employee were described in the maintenance of a "career flywheel."⁹ The flywheel is a concept in which the respective efforts of both parties secure the continuing momentum in a strong career. The advice to the employee comes in these four parts to produce flywheel momentum:

- Maintain a learning strategy and growth mindset.
- Develop a career strategy and "flow" to get the career flywheel turning.
- Build an alliance with each employer in a "give and get" proposition for both sides.
- Establish work–life integration with flexibility and fulfillment.

These points present the key elements for an employer culture to attract and retain talent by supporting the other half of the flywheel momentum.

But the cultural expectations today are challenging because of the well-being and stress issues experienced in 2020 and 2021. The great "work burnout" of 2020 has turned into the "Great Resignation" of 2021: Many talented people have re-evaluated their priorities and made decisions that have moved them away from the industry.¹⁰ In fact, the Future of Work surveys found that 50% of respondents agreed that they would consider taking a job outside the investment industry. Talented people have determined that they have more

choices. They can join other industries or do other things that they perceive as being more aligned with their needs and wants. As one of our experts observed, "The spike in turnover as the COVID pandemic eased was a predictable outcome of a lot of people re-evaluating their priorities in a fresh light."

Focus on the geographic location of investment industry jobs is changing as well. Data from our Future of Work surveys in **Exhibit 3** and **Exhibit 4** show that, perhaps unsurprisingly, investment professionals earlier in their career and those who are currently living in emerging markets are most likely to seek new roles in other locations. Remote work and increased integration of technology tools have turned recruiting talent into a global proposition.

It is also clear that people with a combination of technical skills and diverse characteristics are in high demand because the overall level of diversity in the industry remains low.

One expert noted that the response to the talent squeeze has been more organizations "putting humanistic principles into their culture, making sure that they approach every issue from a human angle first."

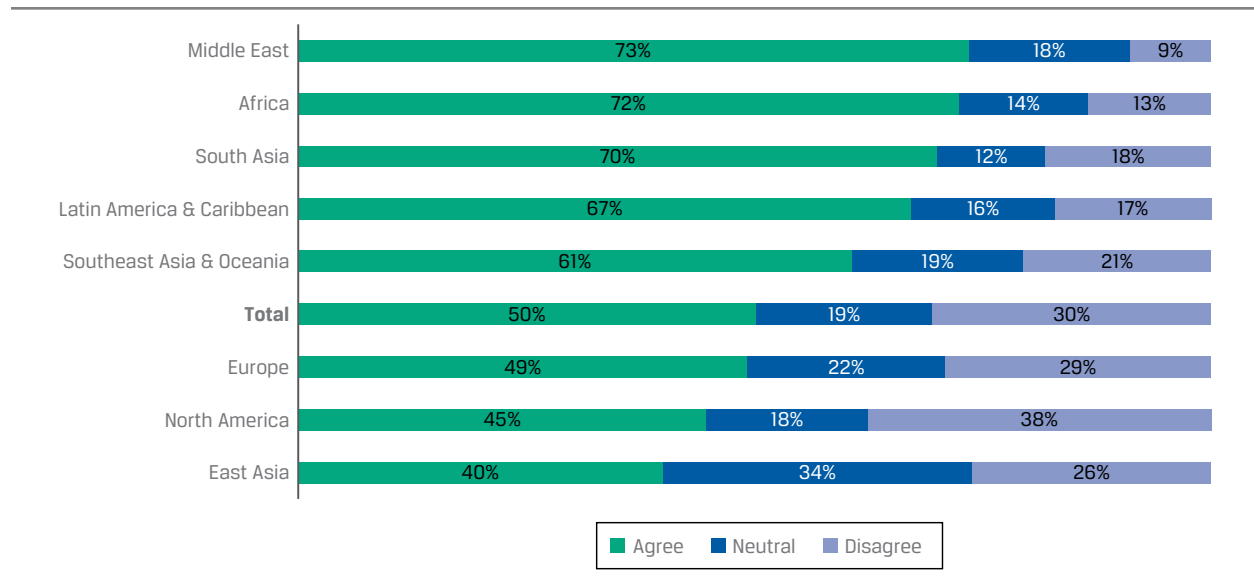
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To stay ahead of the talent crunch, investment organizations need to manage the DEI proposition by applying inclusion and equity, while recognizing the challenge in meeting representation goals in the near term. (We comment on the DEI challenge in the section titled "Culture and Inclusion.")

With all these issues to manage, it is hard to overstate the importance of leadership. Where will this leadership emerge? It will probably arise from the development of existing talent. There is no question that the investment industry has a depth of talent, and channeling that talent into leadership roles should be an industry-wide objective. Of course, that does not exclude seeking new leadership talent from more diverse sources.

The cultural force of empowerment is important in this respect. One role of leaders is to enable others to contribute a bigger part to leadership and thus create a team of leaders in which influencing and being influenced are widely distributed.

EXHIBIT 3. PERCENTAGE OF RESPONDENTS ANSWERING THE QUESTION "I WOULD BE WILLING TO MOVE TO ANOTHER CITY OR COUNTRY FOR A PROFESSIONAL OPPORTUNITY," BY SUBREGION



Note: N = 3,740.

Source: Future of Work surveys.

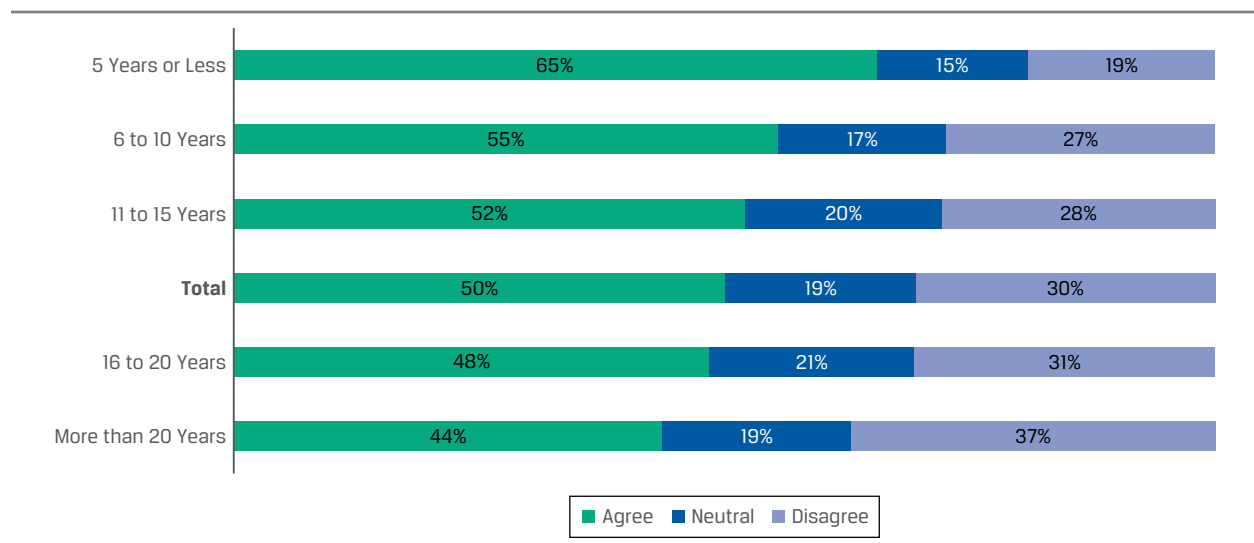
Leaders have different styles, and each leadership style can contribute to culture in unique ways. They include the following:

- The dominant leadership style
- The serving leadership style
- The transformational leadership style

- The coach leadership style
- The systems leadership style

Serving and systems leadership styles are particularly important now, given the secular trend in our complex industry with its multiple human challenges.

EXHIBIT 4. PERCENTAGE OF RESPONDENTS ANSWERING THE QUESTION "I WOULD BE WILLING TO MOVE TO ANOTHER CITY OR COUNTRY FOR A PROFESSIONAL OPPORTUNITY," BY YEARS IN THE INDUSTRY



Note: N = 3,740.

Source: Future of Work surveys.

Systems leadership is generally seen in addressing systems-level change using collaborative leadership, coalition building, and systems insight. The panel referenced systems thinking on a number of occasions and saw increasing traction for this concept in the investment industry. One view was that "there needs to be more of a systems culture in place, where the whole organization is more in tune with the role played by multiple human factors in complex arrangements." This sort of thinking firmly displaces past expectations that an organization's outputs should follow linear logic. Feedback loops, whether positive or negative, are now recognized as more important. One expert's observation was that "the new thinking is about loops, not lines," meaning that we should be much more mindful of how industry factors have two-way connections rather than simple cause-and-effect relationships.

In recognizing this shift, we will likely have to do some unlearning; we must go backward before we go forward. The culture of having a growth mindset is strong in the investment industry and surely necessary to ensure that stronger thinking and practices emerge.

Building leadership depth is one of the leader's key opportunities, and it can be fostered through the teamwork and professionalism of the workforce. Building leadership depth will involve building the extrinsic motivations of the workforce, including rewards and culture, as well as setting the vision and strategy to build organizational excellence and the model investment firm.

Guidance for Investment Leaders

- Build a robust talent strategy: Acquiring, developing, and retaining talent are important, and the development of talent counts double. The cultural value of investing in employees builds better talent, and it improves an organization's ability to acquire and retain talent.
- Provide leadership training: Focus on leadership agility, and include culture in all parts of the performance management process. Manage leadership succession to ensure leadership continuity.

CULTURE AND SUSTAINABILITY

"The world we are traveling into is different" was one expert's way of describing how sustainability is changing our industry in highly material ways. The game-changer in sustainability is climate-aware investing, particularly with net zero alignment of portfolios in line with the Paris climate agreement. Sustainability introduces a new set of critical goals that investors must achieve. "All investors, but particularly asset owners, will have to measure themselves in very different ways," said one expert.

The link between culture and sustainability should grow, in line with the reset taking place on this issue from a time when sustainability was a low-key consideration to a time in the future when it will be completely integral to a successful organization. Sustainability requires, as one expert put it, "having a culture that values a long-term view." There is no question long-term investing and sustainable investing are interconnected. Another expert took this farther by saying, "Culture is the key means by which an organization can live up to its sustainability ambitions."

Sustainability as motivated by financial excellence through environmental, social, and governance (ESG) integration is building a layer of additional sophistication into the investment process and a potential performance edge. The cultural implications of this approach accentuate professionalism by taking account of a broader set of factors that were originally on the sidelines and debated as to their financial materiality. Clearly, the industry has traveled a long way on ESG issues, with 85% of CFA Institute members saying they now take environmental, social, and/or governance factors into account, according to a survey in 2020.¹¹ This indicates that ESG data are now accepted as important, but the effective incorporation of such data still has much further to go.

The journey is increasingly vexed. One of our experts expressed it this way: "ESG has introduced a level of complexity into investing that I haven't seen before in my career." That complexity comes principally from two sources—the values introduced and the materiality differences by sub-sector. It is the latter source that introduces the opportunity for a skill-based investment approach. For example, climate-aware investing calls for the very best investment insights to understand the emissions pathway, transition risks, and physical risks.

Classic sustainable investing looks at ESG effects on companies and performance but not the

effect of companies on ESG impacts in the wider ecosystem. Sustainability motivations now extend to cultural norms that place a value on the social and environmental interests of multiple stakeholders and the investor impacts on them. This phenomenon is referred to in sustainability accounting as double materiality—the idea that ESG considerations are material to both investors and society and that we need to develop sustainability accounting for both purposes. There are parallels with companies that have reset their purpose to include a focus on social and environmental factors in a multi-stakeholder model. Some investors are inclined to do something similar. Both types of organizations have the concept of fiduciary duty to guide their priorities and interpret an acceptable balance among various sustainability considerations if one is needed.

The core sustainability concepts in the area of values are about *responsible investing* and *investing for impact*. These have a growing following among investors motivated by a wider sense of purpose and a willingness to take a longer-term view. This is a "culture of taking responsibility" in keeping with investment organizations fulfilling their license to operate, as one expert described it. The question "what are we responsible for?" has a new and broader answer.

The focus on sustainability is a major shift from the traditional investment paradigm. The norm has been centered on maximizing risk-adjusted return. We are now entering a new world of 3D investing through strategies and mandates that meaningfully balance risk, return, and real-world impact.

If sustainability is to be successfully integrated into our industry, then the industry will need to develop the breadth and depth of the knowledge, skills, and abilities of its professionals. The best organizations are preparing for these challenges by employing more systematic development programs, increasing their access to new talent, and encouraging new learning through a growth mindset culture. As an example, AllianceBernstein has made learning and development platforms a key differentiator with its Climate Change and Investment Academy, which teaches about climate-aware investing.

The quality and depth of the sustainability *transition* will depend on the cultural forces driving the new thinking in a new investment paradigm. Culture is the key catalyst to launch the sustainability transition,

given its link to the purpose, innovation, and collaboration needed for successful change.

The sustainability transition necessitates increased communications with stakeholders using extended and improved reporting. The data and information presented must be more detailed, comprehensive, comparable, and meaningful. This is particularly the case in communicating about impact. But industry organizations are well short of reaching this target state and have been increasingly accused of *greenwashing*, or misrepresenting portfolio impacts, and on the surface, it appears that this practice is on the rise. As one expert described it, "Greenwashing is a serious reputational risk for organizations and even the whole industry." In prior research, we found that 78% of CFA Institute members believed there was a need for improved standards around ESG products to mitigate greenwashing,¹² and to help fill this gap, CFA Institute launched the Global ESG Disclosure Standards for Investment Products in November 2021.¹³

Cultural factors are critical here. Organizations upholding the values of integrity and strong ethics

aim to avoid any greenwashing—perceived or real. Perceptions and realities are often tangled because the sustainability area is so subjective and nuanced. The way forward is for organizations to seek to produce as much clarity as possible by communicating data "with appropriate context and validation, including narrative alongside the figures." In this quest, they will need the support of much stronger industry standards, but most critical of all is adopting the cultural principle of being fully transparent and objective in all intent.

Guidance for Investment Leaders

- **Work together for impact:** Build a wide network of cooperative relationships that allow the real-world impacts from sustainable investment initiatives to be scaled up.
- **No greenwashing:** Apply the very highest standards of accuracy and ethics in all sustainability reporting. Ensure that the benefits and costs of sustainability practice are communicated without undue bias and with appropriate context.

CULTURE AND TECHNOLOGY

Technology encompasses the systems that provide decision-useful and reporting-useful data and information, as well as such innovations as artificial intelligence (AI), blockchain, cloud computing, and dashboards.

Beyond the tangible components in technology, it is the people, governance, and culture that enable the technology to work. These human enablers play big contributing parts in whether the technology actually does what it is intended to, with each part being necessary and codependent. One expert said, "It's like whack-a-mole with technology: Change one thing and you change everything." For example, weak data governance will hinder cultural acceptance and therefore trust and use of the data. Governance, culture, and technology should be considered holistically and relied on equally.

An organization's "technology culture" includes its ability to adapt and improve technology in complex change projects and individuals' preparedness to adapt approaches to blend technology and human skills together.¹⁴ There is a multitude of cultural factors that will either help or hinder the natural progression of strong technology to become a significant differentiator in an organization's successes.

The technology issues start with the people. The investment industry increasingly recognizes the benefits of AI and big data technologies. The obvious challenges are cost, technology, and time, but the people issues with respect to talent and leadership vision are potentially the most significant.¹⁵ In this pyramid of issues, the team needed is the T-shaped team we introduced in the section titled "Culture, Purpose, and Performance," with technology experts and investment professionals with I-shaped skills working in a peer culture alongside individuals with T-shaped skills in the innovation function, which sits at the intersection of the investment and technology functions, to bridge the gap in communications and leverage the combination.

The structural problems with technology around leadership vision produce a lack of cultural priority. This may exist in several places, but frequently it is a board issue. Very few board members have technology capabilities, and because most cultural priorities start with a board, it follows that a lack of coherence and momentum is evident in most technology arrangements. This shows up in quite

a few instances: technology conversations lacking the language for shared understanding, uneven data sourcing and handling that do not deliver decision-useful data, multiple spreadsheets that become increasingly error-prone as they age, and weak reporting methodologies for the complex parts of the portfolio, particularly sustainability. We suggest that answers to these challenges are most likely to come from T-shaped teams.

Technology plays an increasingly important role in innovation but with somewhat uneven results. Recent evidence¹⁶ suggests that the technologies most likely to see a net increase in spending are cybersecurity and data privacy, which is in part to support remote and distributed working arrangements brought about by the pandemic. Consequently, the more in vogue technology areas of AI, blockchain, and robotic process automation that could feed the innovation pipeline have not been resourced as much.

A key reason for the uneven technology influence in our industry is lack of cultural commitment and therefore a misalignment of organizational resources. This is illustrated by how often organizations stumble over technology upgrades. A continuing hurdle comes from the cultural resistance to investing in business change that yields intangible benefits to leaders who find the world of technology opaque. Investment organizations would do well to develop the cultural practices of the technology sector, where experimentation, failing fast, and agility are all appreciated and rewarded.

One expert saw the limits in this practice particularly when focusing on asset owners. "We have created a culture of comfort referenced from past practice." The thinking went deeper than that, to the idea that there were poor incentives to take risk: "The best way to get fired at some asset owners is to innovate."

Why is innovation needed so urgently? There are pressing challenges for society where finance can play a larger role. We can see an enormous task ahead in the transition to a 3D investment framework—of risk and return and impact—that many investors will be making. Innovation needs to be applied to the climate risk management area and to the challenge of integrating the net zero emissions trajectory with mainstream returns and risks. "But the canvas for net zero is largely empty, and it will need massive

new work" was the view of one expert. "The pivoting that organizations managed with virtual working demonstrated considerable flexibility and innovation. We need to harness some of that here."

Pension investment in defined contribution arrangements could also benefit considerably from innovation. The present system is effective in accumulating assets but then falls well short of delivering reliable lifetime income drawdowns that meet diverse client needs.¹⁷

What actions can individuals and organizations take to build a cultural edge in technology and innovation? Four areas come to mind.

First, there is the cultural preparedness of investment professionals to *adapt their work practices* to exploit increasing technological sophistication. This preparedness will reflect the individual and organization-wide mindset. It requires a growth mindset that is open to change, and there is growing evidence that T-shaped teams are an effective structure to connect financial and technology needs.¹⁸ The integration of data and information is a unique opportunity for human talent to shine, which can happen with dashboards (for example, the allocation question can be put onto a dashboard to simplify a mind-boggling problem by highlighting multiple metrics on risk, return, and impact, with time horizon and implementation context).

Second, the concept of a *peer culture* would be extremely helpful. Such a culture emphasizes mutual respect for all roles within a one-team ethos. A peer culture can help technology specialists and other enabling professionals work more effectively and in more fulfilling ways via stronger interactions with front-line investment professionals. One expert's view was that this was unusual: "I have rarely come across investment firms where

technology experts are treated with the respect they deserve. Usually, the talking is across people, not between people."

Third, investment organizations stripped to their essentials are data science enterprises. This suggests that gathering the "truth" should be a cultural beacon when confronted with a spectrum of data from exact measurements to indicators, information, judgments, and wisdom. The best investment organizations are made this way, with the pursuit of an inferential edge in investment opportunities being a revered and authentic practice. But with less cultural rigor, other organizations can retreat into boltholes of self-delusion, over-claiming, and greenwashing. Culture is the key determinant and signal of authentic quality.

Fourth, culture is really a reflection of *incentives* because incentives drive behaviors. As a case study on this point, think of our recent COVID experiences, as discussed earlier. There was a burning platform that drove cultural forces and catalyzed working practice changes through a considerable amount of resilience and resolve. The result was that we created our remote work model by implementing changes in just a month or two—changes that might typically have taken a year or more.

Guidance for Investment Leaders

- Examine the soft infrastructure: Governance, culture, and talent and their motivations are needed for effectiveness with technology. Be prepared to identify some big gaps, but these can be filled with appropriate resolve.
- Reset the thinking as necessary: Technology advancement requires brave leadership to undo previous practices and reset them. This will often involve an elongated J-curve.

CULTURE AND INCLUSION

Diversity is a big challenge and opportunity for the investment industry. As one expert put it, "Conversations on diversity over the last 18 months have escalated significantly, both in scope and depth; it seems to be in the top three of many organizations' agendas." The organizational incentives to develop and evolve diversity span cultural factors, such as values and fairness, and business case factors. Basically, a diversity of perspectives will lead to better investor outcomes, and an inclusive investment industry will better serve our diverse society. These make up two strong reasons to promote diversity, but they also introduce some confusion.

Investment organizations that have strong commitments to diversity, equity, and inclusion can celebrate their talent and human identities and benefit from them. In the principles behind DEI, we should find rich values of respect, integrity, and fairness.

Definitions

Diversity: The full spectrum of human attributes, perspectives, identities, and backgrounds.

Equity: Fairness of access, opportunity, and advancement for all within an organization.

Inclusion: A dynamic state of operating in which any employee can be and feel respected, valued, safe, and fully engaged.

On the business case side, building cognitive diversity has attractions for investment organizations that are challenged by increasingly complex problem solving, particularly with more need in the areas around sustainable investing, which connects multiple disciplines.

But our panel discussions suggest a degree of concern that "the DEI model is not progressing as well as it should be." Our discussions focused on the causes of this lag being part structural and part cultural. The structural element reflects the pipeline of diverse people being disproportionately narrow. The cultural factor is that biases—implicit and explicit—act directly and indirectly to limit opportunity and fair practice.

What can be done about these challenges? First, organizations can secure talent from a wider geography. Indeed, the tight labor market in some

localities should accommodate greater global culture, even a "work-from-anywhere" principle. The part played by global organizations is worth thinking through here. National cultural differences are real and a challenge to align within an organization. But as one expert mentioned, if you approach culture through the alignment of your values—particularly with respect to fairness, kindness, and fiduciary integrity—it seems more coherent and less divisive.

Second, organizations should be able to draw more talent from diverse sources if they apply themselves more assiduously to DEI principles.

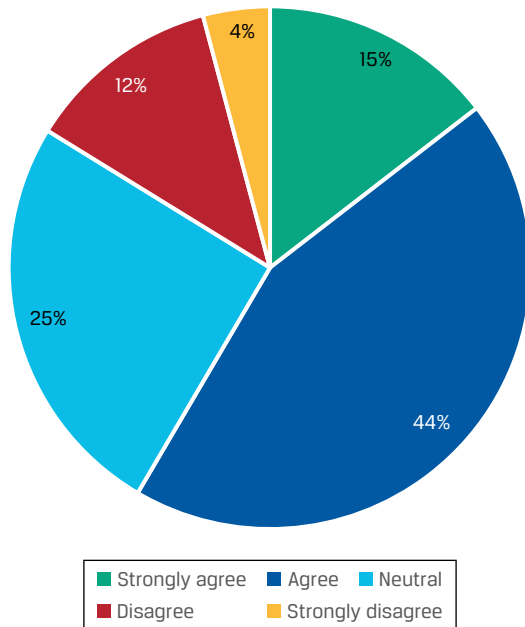
Is the glass half full or half empty on DEI?

Optimistically, there are some impressive industry organizations with coherent programs by which they reduce and ultimately eliminate the gap to a healthy cultural and structural balance. However, as one expert noted, "The imbalances in current industry firms with respect to gender and, in particular, ethnicity on the whole remain substantial," so we need these programs and intentions to get significant traction.

Exhibit 5 reflects the dichotomy expressed by experts on the progress of DEI. In the Future of Work surveys, 59% of respondents agreed with the statement that their company's culture is sufficiently inclusive. While that level of progress is noteworthy, 16% of respondents still feel their company is not sufficiently inclusive and another 25% are undecided up to this point. Women were slightly less likely to view their company's culture as sufficiently inclusive, but there was no significant difference between majority/minority racial and ethnic groups. Improving inclusivity and diversity efforts within the industry remains a work in progress.

Likewise, data from the Future of Work surveys illustrated in **Exhibit 6** show that gaps still exist in the perceived level of recognition received for doing the same work. More than one-third of respondents do not feel they receive the same recognition for their work as their peers. This level of discrepancy means that on most small teams, at least one person feels they are not sufficiently recognized for their efforts. There was no significant difference between majority/minority racial and ethnic groups or across genders. Organizations must strive to consistently recognize their talent and build a framework to fully support employee contributions equitably.

EXHIBIT 5. PERCENTAGE OF RESPONDENTS ANSWERING THE QUESTION "I FEEL MY COMPANY'S CULTURE IS SUFFICIENTLY INCLUSIVE IN TERMS OF VALUING DIFFERENT VIEWPOINTS AND LEVERAGING DIFFERENCES"



Note: N = 3,454.

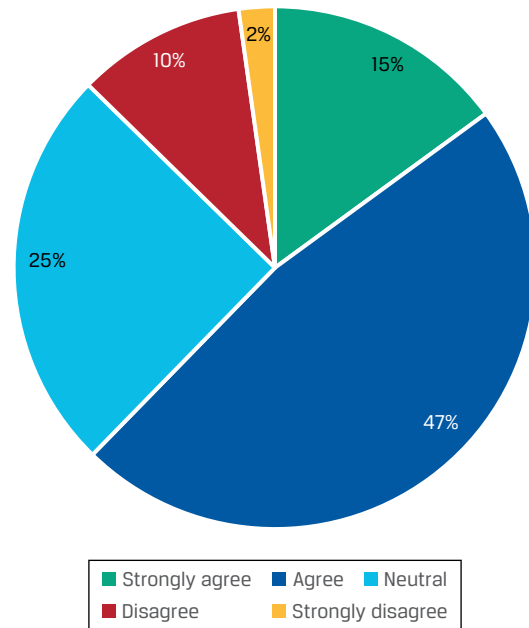
Source: Future of Work surveys.

Some of this work addressing inclusion and equity has the potential to make significant near-term progress. However, some work addressing inclusion will need to be sustained over multiple years to make the improvements desired. As one expert put it, "It is important to not just have diversity but to also have a mechanism through which those voices are heard and respected; this is about our culture."

One of our panelists was very enthusiastic about the lateral talent their organization was attracting: "We are seeing and acquiring a lot of lateral talent as well." But this experience is not yet widely shared. Attracting talent at an accelerating rate while globalizing in a very collaborative way is hard.

The different nature of each of the three elements—diversity, equity, and inclusion—was a frequent point in our panel discussions with experts. Diversity often attracts the most attention because it is most easily measured and is highly visible. In addition, the studies that have shown the potential performance gains have used diversity data.

EXHIBIT 6. PERCENTAGE OF RESPONDENTS ANSWERING THE QUESTION "I RECEIVE SIMILAR RECOGNITION AS OTHERS FOR THE SAME WORK"



Note: N = 3,449.

Source: Future of Work surveys.

By contrast, inclusion and equity are both instances of values that are not directly observable and measurable. They occupy a category that is inconveniently both significantly meaningful and problematic to manage. One expert viewed it this way: "Inclusion is essential for the benefits of diversity to emerge. We should pay special attention to inclusion; just because something is difficult to measure does nothing to excuse a lack of focus on it."

There is a need to keep score better than simply through diversity, especially when the goal is cultural. Measurement gives a subject respect, and we can measure more of this area by targeted psychometric analysis, beyond the employee surveys currently in place. Through a combination of employee pulse engagement and cultural surveys and assessments, organizations can stay current with respect to DEI and other people-centric factors.

The key is working on shared values: fairness, kindness, and a fiduciary duty to clients. Purpose should give special attention to this last one.

The panel saw *trust* as an important contributor to DEI because many of the forces involved in DEI are

fairness, respect, and integrity and are subtle and often soft. It is the presence of internal trust that helps organizations cope with difficult and ambiguous situations. In cases where communications can be interpreted in a non-inclusive way, with strong underlying trust it is possible to judge the motives and the intentions behind the words despite the challenges of managing the impact of those communications. One expert explained that "it was especially important for our leadership team to have sensitive and regular communication to employees following the unlawful killing of George Floyd. We didn't always get it right, but employees wanted to know that it was on our radar." In a world of extreme sensitivity to issues around identity, good intentions should be respected even if communications may be perceived on occasion to lack sensitivity.

Trust is also a uniquely important component of the client interface in the industry. While all commercial organizations need trust in myriad forms for their success, in the investment industry, an end client's trust in the professional's service is simply an invaluable and irreplaceable asset. When you think about clients, trust has monetizable long-term value.

But can trust be maintained in a workplace that revolves around virtual connections?

Trust needs ongoing work to maintain its value, "similar to the work needed to tend the plants in a garden," as one expert put it. The recent digital shift is evolving the trust characteristics in that proposition. While in prior periods the work involved was more about relationships formed through face-to-face meetings, the new conditions suggest our trust model needs more content—both technical and contextual. And this new trust model will undoubtedly be characterized by an increased digital presence. Perhaps actions should speak louder than words. Essentially, trust and the social capital it creates will need some reimagining.

Guidance for Investment Leaders

- Do the practical things well: Set out precise parameters, interpret metrics thoughtfully, and get feedback on how things are working.
- Build and maintain a people-centric cultural identity: Values should include fairness and trustworthiness.

CONCLUSION

"Culture eats strategy for breakfast" is a Peter Drucker quote that is one of the most widely used in business. Culture's importance to human capital businesses, such as the investment industry, is widely documented, but its coverage by industry leaders is uneven.

This report has looked at culture in the post-pandemic phase and shown that we must refresh our understanding of organizational culture and revisit past assumptions. Culture has moved forward in the COVID period and will no doubt continue to evolve.

Some key suggestions for investment leaders are as follows:

- Adopt the hybrid investment working model: Apply assiduous detail to the parameters by which this model works for the organization, for each team, and for each constituent; it is not one size fits all.
- Embrace greater transparency: A highly people-centric culture shows respect to all individuals by communicating meaningfully and regularly.

On culture and innovation:

- Use burning platforms: These can allow organizations to innovate more quickly by using the incentives that these create to build commitment to change and counteract the natural human hesitancy toward change.
- Practice creativity: Tap into the natural inclinations of investment professionals to be creative and take risks to build innovation into the culture.

On culture, purpose, and performance:

- Ask the tough questions: Review why your organization exists and the shape and texture of its identity, including its purpose and vision, history and legacy, and artifacts and stories.
- Take a balanced approach to compensation: Compensation requires successive iterations to strike the right balance that is not unduly geared to commercial success and has more stakeholder components.

On culture and leadership talent:

- Build a robust talent strategy: Acquiring, developing, and retaining talent are important, and the development of talent counts double.

The cultural value of investing in employees builds better talent, and it improves an organization's ability to acquire and retain talent.

- Provide leadership training: Focus on leadership agility and include culture in all parts of the performance management process. Manage leadership succession to ensure leadership continuity.

On culture and sustainability:

- Work together for impact: Build a wide network of cooperative relationships that allow the real-world impacts from sustainable investment initiatives to be scaled up.
- No greenwashing: Apply the very highest standards of accuracy and ethics in all sustainability reporting. Ensure that the benefits and costs of sustainability practice are communicated without undue bias and with appropriate context.

On culture and technology:

- Examine the soft infrastructure: Governance, culture, and talent and their motivations are needed for effectiveness with technology. Be prepared to identify some big gaps, but these can be filled with appropriate resolve.
- Reset the thinking as necessary: Technology advancement requires brave leadership to undo previous practices and reset them. This will often involve an elongated J-curve.

On culture and inclusion:

- Do the practical things well: Set out precise parameters, interpret metrics thoughtfully, and get feedback on how things are working.
- Build and maintain a people-centric cultural identity: Values should include fairness and trustworthiness.

ENDNOTES

¹CFA Institute, *Future of Sustainability in Investment Management: From Ideas to Reality* (2020). www.cfainstitute.org/-/media/documents/survey/future-of-sustainability.pdf.

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¹⁴This is the AI + HI framework as introduced in the previously cited CFA Institute report *Investment Professional of the Future*, in which technology and people working together are more effective.

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