HEDGEWORLD NEWS

A Sound Investment: Managing Talent When You'd Rather Be Managing Your Business

By Wendy R. Weidenbaum and Nancy E. Foxen | Friday, December 03, 2004

Most financial services firms continue to view managing people as separate and distinct from managing the business. This is particularly true in the demanding, complex, fast-paced environment of hedge funds where decisions are based on reams of analytical data, knowledge of the markets and client relationships.

But stop for a moment to think about the effect a divorce, a poorly timed phone call or the wrong question to the right client can have on a deal. Much of the fallout from these types of events can be avoided by taking time to manage people more effectively. Using the 80:20 rule—in this case, spending 80% on production and 20% on managing people—will significantly improve the return on your human capital investment. The success of your business depends exclusively on the people who constitute the organization. Remember, without proper guidance, even smart people can, and do, make wrong decisions.

Like most executives, managing partners of hedge funds will most often choose to do deals and bring in revenue over spending time and effort to manage people. Yet hedge funds typically are operationally lean, leaving many administrative responsibilities up to the managing partners or chief operating officers.

So, what happens when someone makes a mistake? The fallout from not taking some corrective action when warranted can include friction among the staff, increased likelihood of a repeat event and, of course, the possibility of lost revenue. Sometimes the path of least resistance is to ignore the problem and hope that it never happens again. There is a better path.

In addition to paying people competitively, a number of leadership steps can be taken to ensure all employees are as productive as possible. These include consistent communication—through word and action—of the firm's culture, business model and what is expected of each employee. Consider the following:

• **Provide performance expectations and goals.** People like to know what's expected of them and how they are doing. At the beginning of each fiscal year, meet with each employee to discuss performance and development needs. Consider the PAR model to help guide the discussion. For each deliverable, discuss the Performance, the Action taken and Results achieved. Discuss what worked well and what should be done differently. Plan to have two other meetings appropriately timed throughout the year as a follow-up to this discussion. The objective is to minimize performance "surprises" at year-end.

• **Demonstrate a real hunger for the business and a passion to win—ethically.** You know the industry—share your knowledge and experience with those less seasoned. Introduce team members to clients and competitors. Keep people engaged. Encourage the right behaviors through your actions and words. Communicate through town halls, regular emails and departmental meetings. To operate as a first-class organization, ensure that all employees understand that a place on the team is earned each year.

• **Lead by example—mentor and motivate.** Demonstrate the highest level of commitment; hold everyone accountable for executing the best, most creative strategies in the most professional manner. Spend time with the more junior staff to explain how they fit and the value they provide. Rotate the people into different teams to provide diverse experiences. Help others create their own "Board of Directors," a group of allies consisting of internal and external contacts and clients who can give advice, guidance, support and sponsorship.

• **Push people to take smart risks to raise the level of the game and give constant feedback.** Provide motivational feedback that catches someone doing something right. Formative feedback can be either constructive or destructive. Make it constructive by focusing on the behaviors exhibited, not the person. Always provide examples and be honest and direct. Think about the effect your words will have on the individual before you say them. Don't provide feedback in the heat of the moment; wait until you are calm and level headed. Give feedback in small amounts and then check to see if the feedback was heard accurately. Emphasize future actions.

• **Establish and communicate the firm's reward and recognition philosophy.** Communicate the firm's philosophy on expected levels of performance, acceptable behavior and promotion criteria in a clear, concise manner. Employees respond favorably to knowing what's expected as well as the possibilities of what lies ahead. Have a transparent process.

• **Hire and fire wisely.** Communicate up front the job that needs to be done and the organization's culture, and know what knowledge and capabilities will be needed to help ensure success. Spot gaps in talent quickly and fill them internally or hire from the outside. Identify important positions that are critical to the overall success of the firm. When someone is not working out, give a reasonable opportunity to improve, document discussions and events and if necessary, terminate the person with a generous package and respect. Remember, it's a small world.

• **Select the right person to do the right job.** Know each employee's strengths and weaknesses. Who is good at closing a deal? Who is best at business development? Match individuals with the right job, but don't pigeonhole them. Give employees the opportunity to excel and take on new challenges, add new responsibilities, new clients, etc.

• **Know your stars and emerging stars.** Differentiate and pay for performance. Acknowledge outstanding performance. Know who has leadership potential vs. who will remain a follower and develop accordingly. Consider if any stars are at risk and determine how you will retain them.

• **Get and stay involved.** Set and get the pulse of the organization. Walk the floors. Ask employees what they are working on, what the market is doing, what other funds are up to. Respect each person's opinions. Set the right tone.

As a business leader, you can demonstrate your commitment by taking the time to manage your most important asset, the people.

The latest data show that people do not leave organizations—they leave managers. People will do almost anything for a manager who respects and appreciates them. And, that is the rub. What do you need to do to show your respect and appreciation efficiently? Bottom line, get a return on your employee investment by establishing an environment where people can become the best they can be—help each individual reach his or her potential.

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