



CFA Institute



STATE STREET



Discovering Phi

Motivation as the Hidden Variable of Performance

The State Street Center for Applied Research and CFA Institute have discovered a hidden variable of performance with a statistically significant relationship to long-term organizational performance, client satisfaction, and employee engagement. They named it Phi, which is derived from the motivational forces of Purpose, Habits, and Incentives that govern our behaviors and actions.

α

Excess
Return

β

Market
Return

γ

Added
Value
Through
Advice

Φ

Purpose
Driven
Motivation

A one point increase in Phi is associated with:

28% greater odds of excellent organizational performance

55% greater odds of excellent client satisfaction

57% greater odds of excellent employee engagement



ISSUE

53%

53% of investment professionals say they pursued their careers because they are passionate about financial markets. But some are working with unproductive motivations.

28%

Only 28% of investment professionals surveyed said they remain in the investment management industry for the purpose of helping clients in achieving financial goals.

46%

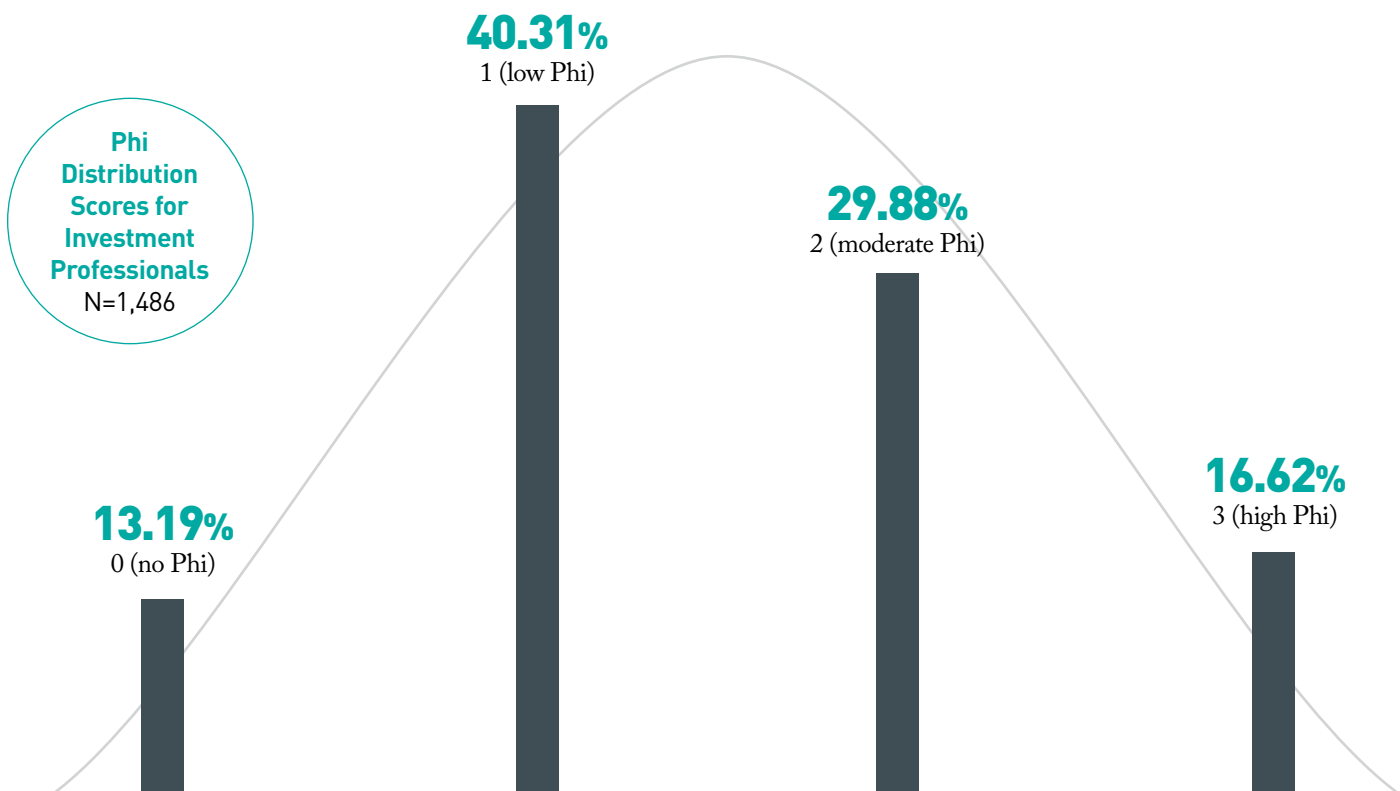
Only 46% of retail investors believe that financial institutions operate in the best interest of clients.

38%

Investment professionals agree. Only 38% of respondents believe that their organization is acting in the best interests of its clients.

OPPORTUNITY

There is a significant opportunity for the industry to improve, since only 17% of respondents were rated high Phi. When the Phi of the investment professional, the investment firm, and their clients align, this represents the greatest potential for sustainable organizational performance.





ACTIONS

Lead and Inspire

44%

of investment professionals believe their leaders articulate a compelling vision.

40%

of investment professionals think their leaders re-examine critical assumptions and beliefs.

33%

of investment professionals believe that their leaders are spending time teaching and coaching employees.

Reevaluate the Firm's Mission

Organizations need to ensure that investment professionals understand how their actions impact their clients' lives. Many organizations attempt to use mission statements and other corporate messaging to provide purpose.

5%

of managers believe their mission statement has a significant positive influence on the day-to-day lives of their employees.

Avoid Short-Termism

The environment can misdirect the passion for beating the market toward behaviors that inhibit performance and undermine the credibility of the industry. Asset owners, asset managers, and wealth managers all report various short-term pressures that affect their decision-making.

Common Cause: Short-term performance assessments of investment professionals versus the longer-term investing horizon of clients. Among asset owners, most of that pressure came from:

- The board (37%)
- Management team (30%)
- Investment consultants they have hired (17%)

39%

In contrast, 39% of investment professionals would be pleased to have a performance bonus on a two-to-five-year cycle versus the typical annual bonus.



Motivation as a Sustainable Competitive Advantage

INSTILLING A SUSTAINABLE AND VALUABLE MOTIVATIONAL FORCE IN YOUR FIRM

Leaders who imbue their firms with the purpose, habits, and incentives that lead to Phi will have a sustainable competitive advantage that benefits clients, firms themselves, and society as a whole.



To learn more, read our report, "Discovering Phi: Motivation as the Hidden Variable of Performance." cfainstitute.org/motivations or Statestreet.com/phi