EPISODE 91:

How Character Science Drives Investment Success

with KRW International

Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better the people behind the investment process. We introduce you to chief investment officers, manager research professionals, investment consultants, and other important players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and our Dakota Live content, please check out dakota.com to learn more about our services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker, who is not affiliated with Dakota. Not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases. And say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakotamarketplace.com today. In this episode, you will learn how character science influences leadership coaching and its practical application in investment manager research and due diligence. You will understand Kelly's approach to coaching leaders, especially within the investment community, and how coaching strategies can be employed by and your team. Whether you are a limited partner, general partner, or investment advisor, join us as we learn why integrating character science into investment leadership can enhance decision-making, improve organizational culture, and allow you to better understand your investments. Kelly, welcome to the podcast.

Kelly Kiel Garramone: Thank you, Rob. Really, pleasure to be here.

Robert Morier: Well, it's wonderful to have you here. You are videoing in from your home in the Washington, DC, area. So, we appreciate you making the time this morning. The fall is always, it seems, like the busiest time, coming out of Labor Day. And schools are back in session. So, we appreciate you making the time.

Kelly Kiel Garramone: Of course.

Robert Morier: Well, we have a lot of questions to ask you. But before I do, I want to quickly share your background with our audience. As both CEO of KRW International and executive director of the KRW Research Institute, Kelly brings more than 30 years of executive experience, providing coaching, consulting, and advisory services to boards, the c-suite, and learning and development. KRW International is a global consulting firm dedicated to improving the performance of leaders and their organizations. KRW's evidence-based methodologies are grounded in behavioral science and a long history of executive development. The origins of their consulting practice date back nearly 50 years, when KRW's founders pioneered deep-dive verbatim 360 assessments for senior executive development processes. The firm's seven-year landmark study Return on Character, published by Harvard Business Review Press, reveals a unique, measurable, and consistent relationship between senior team character and an organization's ability to execute its business investment strategy. One of the principal field researchers for the seminal Return on Character project, Kelly is now focused on converting research insights into application, as well as sharing Return on Character broadly in the world through joint research programs and training and certifying coaches in evidence-based Return on Character methodologies. Kelly also has a strong interest in leadership within emerging markets. In cooperation with the University of Bucharest, Leaders Romania, and Leaders Moldova, Kelly converted corporate team development programs into curricula designed to share cutting-edge leadership strategies with emerging leaders, while also examining the unique challenges of their post-communist economies. Kelly began her career in finance and accounting as CFO of a large mental health clinic system, and then president of a vocational rehabilitation services firm before joining KRW in 1991 as chief operating officer. Over the years, Kelly has been posted with her husband, a US diplomat to the UK, Romania, Jordan, Belgium, France, and Switzerland. And as we mentioned at the top of the show, Kelly now calls the Washington, DC, area home. Kelly, congratulations on all your success.

Kelly Kiel Garramone: Thank you.

Robert Morier: You're welcome. Well, before we get started, I did want to set the stage for our audience for this conversation. A question that I frequently ask our asset allocators is the process they employ in evaluating the people behind investment processes. So given the size and duration of the investments that these institutions make, a great deal of trust is employed as you hand over the keys to this fiduciary responsibility to a third party. It's arguably one of the most difficult but important parts of the process. It's the art and the science, and mostly art because it's a people business, which many of us say in our industry. So, the questions that we often hear in the industry when a manager research person is evaluating an investment firm, a general partner, is how they assess a person or a team during a due-diligence process, particularly those earlier stage investment managers that don't necessarily have the track record, the history, or experience of their peers. And then on the other side of that trade, how do you improve your capabilities as a general partner, as an asset manager, as an investment leader or investor through coaching and character development? So, we have a lot to unpack, obviously, this hour. So, let's get started with the mechanics, if you don't mind. Can you describe the work you do in coaching leaders, specifically around character development?

Kelly Kiel Garramone: Well, first I want to say, I love that you're asking that question of people can consistently. The… what we know, and what I hope to be able to share with you during this discussion, is that the difference that makes a difference are the people in leadership. There's all sorts of academic research, actually, that looks at controlling for macroeconomic conditions and business model as an explanation for the kind of results you get. And depending on the research, anywhere from 9% to 30% of the reason for the results is accountable to who's in charge at the time that they're measuring the results. So, what that means for all of us is that nobody can do anything about macroeconomic conditions. That's the same for everyone. Probably within your sector, you've got similar kinds of business models. But what you have complete control over are the leaders and the quality of people that you surround yourself with and the kind of culture that you create with them. And that will be the difference that makes a difference in success. So anyway, you can tell I'm passionate about this because there is such clear evidence of the role that people play in business success. So, the work that we do is to help organizations to leverage that leadership and people part of their equation in the best possible way. So, we do it through… it used to be through classic gap analysis of looking at what people's performance is compared to their impact. Now, through the power of insight from the research that we've done on character, we can be very specific about looking at people's character habits and the impact that they have on the system. So, people come to us generally either because they have found that their organization and performance has become flat or maybe even beginning to decline. And they're looking for lift again. They've felt like they've done everything they can within their business model or supply chain. And they realize that it's really residing in people. Or they're looking at the next generation of leadership and want to make sure that on top of all the skills and the expertise and experience that they have that they're confident in their judgment and in their ability to navigate the complexity of the world these days. So, we help them to do that, either of those outcomes, through looking at the impact that leadership is having on the conditions that enable their business to run.

Robert Morier: That's very helpful. Thank you for setting that stage. Maybe just going a little bit deeper. So, in areas like venture capital, coaches have been helping entrepreneurs and investors navigate that relatively complex world of these investments for many years. So coaching isn't a new program, if you will, for some of those investors. So how would you, or how do you approach coaching investment professionals relative to maybe some of the other areas of your business?

Kelly Kiel Garramone: Well, actually, it's not that different because, really, what character comes down to and the kind of coaching that we do is your ability to engage other people. And often, the best way to engage them is through a trusting relationship. So, in that sense, it's pretty uniform across industries. What becomes especially unique within investment professionals is the sensitivity to and the need to really pay attention to your risk profile. We worked with an organization that, after the financial crisis, was under some pretty tough scrutiny from regulators and the press, frankly. And so, part of what they really needed to do was to find a way to return to a sense of growth and entrepreneurialism within their organization, but in a way that their regulators would be comfortable with and trust. And so, they approached us around, how do we do this with character? Because that way, it would satisfy our regulators. And also, they knew from our work that organizations led by high-character teams had greater innovation, greater return on asset, greater profitability. So, it was this marriage of character and growth. And what we worked with them to do to understand first was, what's their risk profile? How do we… how do they define safe and productive risk? And then what behaviors would most productively support that? And what we learned in assessing the senior team and getting a read from the culture and from the workforce was that people didn't know how to safely take risk anymore. They didn't how to have both a trusting relationship with their clients and push the envelope a little bit in a way that would be exciting for them and also growth producing. And so, through our understanding of that and our collaboration with them, we were able to help senior leaders to become role models for taking risk appropriately and doing it within the values and the principles of the organization, too.

Robert Morier: That whole concept of balancing growth with characters is interesting because a lot of times when an allocator is assessing an asset manager, we'll typically start with the people. But often, it's about their performance or about the returns or the historic returns, which is the growth. And I'm sure there have been a number of case studies that we all know of where character can be sacrificed for growth. So, I think it's interesting that you're working with this whole idea of returning this concept of growth to entrepreneurship through the lens of character. So obviously, this begs the big question, how do you define character?

Kelly Kiel Garramone: Well, I love this question because as we've gone around the world talking about character, everybody thinks that they know what character means, that there's this universal definition of it. And trust me, in different languages, it does have different meanings. Sometimes it's the easiest to talk about character about, first, about what it isn't so you can see then what it is. So, your character isn't your personality. It isn't your style. What it is, is your automatic responses in moments that really matter. So, do you automatically tell the truth, even if it puts you in a difficult position? Do you automatically take responsibility for the consequences of your decisions and actions? Do you automatically respond with maybe empathy and curiosity when someone has made a well-intended mistake? Do you treat people as people, or do you treat them as a means to your end? Those things that I just described as character can be done within anybody's personality or style. I know you well, Rob. You and I have very different personalities. And yet people could very reasonably describe us as having similar character if we both respond consistently in those ways that I've described. The great news is that the things that I've described are behaviors. And if they're behaviors, then they can be adapted, adopted, modified. And that's why coaching is valuable, because once you understand perhaps the disconnect between your intent and your behavior, can align your behavior then with your good positive productive intent and have your character actually working for you, rather than hindering you.

Robert Morier: Well, I've heard many times that it's hard to teach an old dog new tricks. So can character be taught, especially with somebody who's had a career in investments or a career in exhibiting certain behaviors as it relates to their style, for example? Investors are often asked about not just their investment style but their style as a manager. And sometimes, it's behaviors that have been long standing. So, I think the question that our audience will be interested in better understanding is, one, can it be assessed and how? And then two, can it be taught?

Kelly Kiel Garramone: Well, if I take them in order of your question, yes, your character can be assessed. And the hesitation you might have just heard in my voice is just this. Truthfully, we can't assess what's in your heart or in your mind. That's private to you. But what we can assess is the way that you behave, the way you demonstrate your character. And those are outward behaviors. So, what we're looking at is the reflection of your character in an assessment. And we've, through our research, tested more than 300 micro behaviors that were related to these concepts of character that we have. And we've… what was really thrilling about the research is that we've boiled it down to about 27 specific behaviors that are most commonly recognized as evidence of character within an organizational system. And so that's what we're assessing. We're asking you how well do you think you demonstrate these behaviors? And then we go out and ask a random sampling of people in your work life how well they see you doing that. And it's looking at the gap, really, between your intent and your reputation that gives you an idea of the impact of your character. Character is either a magnifier of your strengths and your gifts that you bring to the organization, or it can be a minimizer. That's why when Enron or some of these other colossal failures, people are very quick to say, oh, that was a failure of the character of leadership. People know how to ascribe the destruction of value quite easily to character. But they haven't really figured out how to ascribe the production or the growth of value to character. And that's what we believe what we found in our research is the link between character leadership and the growth of value.

Robert Morier: Interesting. In the book Multipliers, there's this concept of unintended diminishers. So, people who don't necessarily know that they're diminishing as it relates to leadership and management. Do you see the same thing as it relates to character, where let's say someone who's running an asset management firm doesn't realize that some of these behaviors that they're exhibiting are actually a detriment to the management, the team, the process? But it's through unintended results.

Kelly Kiel Garramone: Yeah, absolutely. We see that all the time. We have or had a client who… really well intended in terms of how he was building his team. And it was his sales team who were working with really, really high-level global clients. So, they had complex kinds of sales, and trust was paramount. And what our client would do was in the pitch practice, in the conference room, in their own offices, he would just hit on every single thing that was wrong and just, they felt like they were getting the third degree. And they would just come out of there bruised and bleeding. And then he wondered why they were lackluster when they got in front of the client. And it wasn't until we did the assessment, and he understood the difference between what he meant to do, which in his mind, he thought he was saving them from embarrassment in front of the client. He thought he was, in fact, he felt great the more mistakes he found because it was then something that he saved them from doing in front of the client. Rather than their experience of it was they couldn't do anything right. And they were afraid to even open their mouths. So, once he saw the difference between what he meant to do and how they were experiencing it, he was just really disheartened that his good intentions had gone so awry. But what it also… to your comment about old dogs and new tricks, he was quite an old dog, I will say, at that point. But he immediately embraced the notion that he had to find a better way to teach people that… where they understood he was looking out for their best interests. He was on their side. He was their biggest cheerleader. Just that shift in his thinking started him on a pretty quick path to changing his behavior. And it wasn't too long before his team really believed it. And the lift was incredible.

Robert Morier: Well, I think it's interesting that you were able to whittle this down to 27. But again, I'm thinking about the audience. And you have two sides of the table. On one side of the table is the asset manager. So, they are pitching their product, pitching their strategy. And it's a person, obviously, who's doing that. And then on the other side of the table is someone who's evaluating it. It's an allocator. And when I think about those 27 behaviors from both sides of the table, what are the few key behaviors that you have found in your experience that are the most important to exhibit and the most important to watch for?

Kelly Kiel Garramone: Some of it is surprising, I think. These were the counterintuitive things. Maybe the first one won't be as surprising to you, except in the nuance of it. And the first is keep your promises. And a promise can be anything as simple as, I'll get back to you next Tuesday, all the way to, I'll help you get the next deal or the next promotion. Everything in there is a promise. And people tend to think of promises more up at that high end of it's a big thing that you're offering or you're promising. But it's all… it's actually all of those little promises that add up to be something much more powerful. Because what those little promises do, like if you don't get back to someone by next Tuesday or you don't… you say, yeah, I'll get that report to you or I'll give you this information in time for your meeting. If you miss those moments or you just come in at the 11th hour, what people are learning about you is they actually can't trust you. And so, when you do make the bigger promise, they really think, is this going to be like these other things? So that's the first one. So, the secondary part of the keeping your promises is how you renegotiate in the event that you can't actually keep the promise. So again, at that smaller end of, I'll get back to you by next Tuesday, if you realize by Thursday or Friday that you won't make it, you let them know in advance. And you offer an alternative. What you're doing by doing that, first of all, proactively, is you're being respectful of their time and giving them a genuine chance to be able to replace you. You also, by the way that you say, I understand this is important to you and that you need to do this so here's my alternative, you're demonstrating you understand something about their world. And it's not just all about you. You're demonstrating to them that you value them and their contribution as well, too. Those are the essence part of the part of character that we call compassion, where you're not treating people like a means to an end. But you're treating them like people. And so, you're not saying that you treat people like people. Now, you're demonstrating that you're doing it through that. And that's almost as powerful, or sometimes even more powerful, than just following through consistently because people will feel so seen by you in that moment. So really, especially in the world of fiduciary responsibility, being trustworthy and keeping your promises, and people knowing that they can trust you is, I think, paramount. So, I think that would be the best key I could give you.

Robert Morier: That's a good key. And I think it's a good reminder that those small promises add up to big promises. So, if you're at the finish line with a mandate or a new account as an asset manager or you're getting close to making a decision as an allocator, it's good to keep track. And keeping track of those small promises along the way are very important. I always think about word congruency, the matching of what you're saying versus your actions. It sounds like it's there. But you also mentioned compassion. Compassion can sound so fuzzy in financial services in particular. There's the joke, there's not a lot of love on Wall Street. But there's a lot of action. There's a lot of growth. So how do you think about compassion? And I ask that as well because there's obviously been a lot of changes since the pandemic, where we have this insight into people's lives that we never had before. Even just this interview, if you just take where we're doing this, I'm in an office. I'm in a studio. But you're clearly in some type of home area that I probably would have never seen 10 years ago. So, when you think about compassion in leadership and then compassion in assessments, where does that bridge tie off? And how do you define compassion?

Kelly Kiel Garramone: So "compassion" is a really interesting word. If you look at the origin of the word itself, compassion is that someone is first feeling the pain of others. So, there's empathy. And then they feel moved to alleviate the pain. And that's what makes it be a leadership behavior is that movement of action, doing something. It's not just best wishes or thoughts and prayers. It's, now you're actually doing something with your recognition of the situation. In a leadership setting, and within the investment world, compassion is about seeing other people completely in such a way that you not only understand where they came from and how complex their lives are now, but you understand their dreams of the future. Where are they trying to get to? The more that you can then demonstrate to them that you understand that, and you're there to actually help them to get to where they dream of going, they will… it just… that's why workforce engagement… a lift in workforce engagement is associated with higher character leadership. It's because people feel so seen and supported that they will then, in exchange, give you all sorts of discretionary energy that then brings greater results to the organization. I think the other thing I wanted to… you touched on something about allocators, which reminds me of an allocator we've worked with, who what he found out was… in this assessment was that the way he was engaging others in decision-making and the way he communicated around decisions was really where the crux of his need for aligning his good intentions with his reputation. And it pulls that compassion thread because when people feel left out of decisions or they feel left in the dark or they feel that they knew something was different about a decision then what was communicated and they feel that disconnect, there's a disease that comes with that. And also, then it begins to work away at people's faith and trust in leadership. So, if they can't trust the way communication or the way decisions are made and communicated when they know what has happened, they're less likely to then go on faith and trust when you ask them to just take your word for it and please, please follow them in a certain way.

Robert Morier: So, in your experience, how does character then correlate with investment performance, or just the performance of an organization as it relates to either the investment in the business or the investment in your people?

Kelly Kiel Garramone: Right. Our editors at Harvard Business Review Press asked the same thing. They were like, OK, you've got all this great data. And you've got all these great stories, but come on, this is business. In a one-pager, show us, how does character turn into money? So that was our challenge. And the answer, really, is, is that it comes through these automatic response patterns, we call them, which is just a fancy word for habits, but leaders have around how they make people decisions and how they make organizational decisions. And the way that their character comes out of, in those decisions, again, are they being collaborative? Are they being… are they creating a safe way to innovate and to take risks? Are they communicating in a consistent way, like we just talked about? All of that creates the conditions that either enable superior execution and innovation or that suppress it. And so we've created what we call the value chain of showing how your character habits flow through the system, looking at accountability, collaboration, how you build your team, the kind of vision and strategic focus you have, how all of those conditions are impacted by your character habits and then come out the other end in execution, your risk… have you increased or reduced your risk? And your engagement?

Robert Morier: A question is, now that we understand character and we understand how you're thinking about assessing it and evaluating, how do you apply those principles in your coaching practice? So particularly, you had mentioned working with allocators but also working with sales professionals. So how is it… how is the concept, the theory put into the practical or the experiential?

Kelly Kiel Garramone: So, as I said, we now can assess people's character impact and character reputation. And so, what we… where we always start, though, is that because we're an evidence-based organization, we were very lucky. In our early history, our very first clients back in the… must have been the early '80s… happened to be engineers of a technology firm. And they did not want to be going to talk to psychologists about any of the soft stuff. They were just not in it. And so, the only thing that we could do, or what my predecessors could do to get into rapport with them enough to even get them to talk about development was to provide them data and evidence. So, we're very lucky that our history started with these really hard-core people that wouldn't take anything that wasn't tangible as evidence. So, the first thing we do is we assess and look at that gap between intent and reputation. What we also then do is, because we know people are busy and need to have a great deal of focus, is that we have so much data now. And we understand the relationships now between these individual micro-behaviors and types of impact that we run our algorithms to be able to pull out, what are your top two habits or top two behaviors that, if you were to focus on one or the other of these, would create a domino effect of other positive behaviors? It's a phenomenon called a keystone habit or keystone behavior, where when you're practicing this one behavior, it just naturally brings other kinds of behaviors along with it. So, we help people to figure out, what's their keystone? What's that one behavior? Is it about keeping promises? Or is it about how you respond when people make a mistake? Or is it about taking responsibility? And then look at how you are currently doing that and really understand the behaviors and the triggers and the context for it and help you modify that in order to get this positive cascade going of new behaviors. So that's on the behavioral side. But again, as I said, because we're evidence based, we always start with, all right, let's just… you've described what you… why you've come to us, what you hope to see. Let's say you do this. Let's say you succeed beyond your wildest dreams. What metrics would you expect to begin to be impacted in your organization, both qualitatively and quantitatively, if this were to be true? What would you expect to see begin to move or change or grow? And so those become our beacons, then, for how we look at the line of sight between your behavior and your leadership and then those outcomes. And then we build the plan with them and coach them to those outcomes.

Robert Morier: That's wonderful. Thank you for sharing that. I'll take just the other side, the devil's advocate side of this. So, when you think about, again, the position of an allocator, so you may or may not be aware that your asset manager that you're speaking to, your general partner or investment manager has been coached. And potentially, the coaching could be this short-term cover for maybe masking some of those behaviors that are long standing. But they're very good at presenting, or they're very good at presenting their business or themselves or their process. So how does an allocator really understand what's behind the coached professional, if you know where I'm coming from in that regard?

Kelly Kiel Garramone: Actually, this reminds me of a story of someone that I was working with last year, who… her company was sold. And she needed to find a new position. And she came to me, and she said, Kelly, this time, I want to work with a high-character CEO. I'm tired of the scaffolding that I need to do. And I really… how do I figure out as the candidate… they've got an open book on me. How do I figure out in reverse? Which was a wonderful kind of challenge for us to have. So, what we sat back and thought about was, actually, with the behavioral indicators that we have, there are tells. There are cues that you can look for in someone else. So, one of the things I will caveat this with is that the heart of understanding character is that it's really this balance and connection between your head and your heart, that the highest character leaders are ones who are really tough business leaders. I mean, there's no messing around with that at all. And they know when to bring in just compassion and forgiveness and empathy in ways that are congruent. They are congruent in that themselves. So, they give some tells when they have that congruence. Some of them are when they're talking to you, are they as interested in you as you are in them? Is there an equal kind of sharing? Or is there a tendency to keep bringing the conversation back to them? Is the focus on them? Do they need to have certain kinds of affirmations and et cetera? You probably can recognize that pretty quickly and pretty easily. What we coached her to do was to ask questions that would open up the conversation in a different way. Like, say to them, tell me about a difficult time in your life that has changed how you lead or that has changed how you would approach tough decision-making. Or even just simply something as simple as, tell me your story about how you got to where you are today. If what you get is a recitation of achievements and milestones and no reflection of what the meaning was of that or any kind of integration of, "and so, therefore, now that's led me to," you may need to dig a little deeper. People might be humble and not want to say a lot. But if you dig a little deeper and that's what you… that's all you get, that's at least a yellow flag, if not a red flag on that. Also, ask people around them. How do they treat people in junior or subordinate positions? How do they treat even service people? if you can get an understanding of that. High-character people treat everyone the same, whether you're talking to someone who's opening the door for you or you're talking to someone in the boardroom. Just look for those kinds of tells. And look at even if it's… if it's a prominent enough person, look at whether or not there's anything in the press about how they deal with setbacks or failures. If they own it, if they talk about reflecting on the meaning of the mistake and what they'll do to recover from it and take responsibility for it, that's a positive sign.

Robert Morier: Kelly, you've talked a lot about the head and the heart. But I can't help but think about some of the guests who have been on this show, who more often than not have to also think with their gut, their instinct, their experience, who they've met in the past that this strategy resonates with them for that reason. So where does the gut come into this play? And I understand the gut could mean you're hungry. But it can also mean that there's something right or something wrong about this. So, any thoughts on that?

Kelly Kiel Garramone: Yeah, oh, I'm glad you asked that. We work with some PE firms, actually, where that is their strategy. They have their analysts do all the hygiene factors and do all of their regular analysis on the business itself. But it still comes down to, does their gut feel good about this leadership team? And what we've helped them to understand is that they have… they're picking up these signals of integrity, responsibility, forgiveness, and compassion that make up character. And they just don't know that they know that. And so that's part of what we do when we work with those teams is to help them to codify, basically, their gut and say, what is it that we're paying attention to? And in our best relationships with PE partners, we learn even more. They've got extra sensitivity around what they're paying attention to, which we're fascinated to learn about as well, too, and can help them to then trust when they feel that their gut is either on or off and give them the language and the other signals to verify that. I think that's something that is an underrated business skill, actually, or just a life skill is to trust your gut, but to understand what your gut's telling you.

Robert Morier: Kelly, thanks so much. That's very interesting, particularly the questions that can be asked, whether you're an asset manager or an allocator looking to invest in an asset manager. But it leads me to another question, which is, once you may have heard some of those answers, and you've identified that you like the firm, you like the strategy, you like the business, but the leader, either the head portfolio manager or the chief executive officer of the organization, clearly needs some work. But you want to maybe put the work in. So, what are some of the tactics that can be employed as it relates to the person who's evaluating and thinking about taking that job? To your example earlier, with the person who was looking for a high-character firm.

Kelly Kiel Garramone: That's interesting you ask it that way because we actually work with some PE firms who will ask us when they're looking at either acquiring a portfolio or a new portfolio company or sometimes if they're looking at divesting in them. And so, they'll bring us in. And the way that they bring us in isn't… in fact, we insist on this… that it isn't as the final piece of a decision. But it's for mutual exploration and for their benefit. So, they let them know that what they understand is that the quality of leadership is one of the key differentiators of success and growth in an organization. And they want to give them the best chance at having that opportunity for growth. So, what we will do is we'll come in and do this assessment on the leader and the senior team and engage them in a growth strategy that leverages their character in the best possible way as well as the rest of their business model. And what the most successful PE firms have done that we've worked with have done this as a bit of their due diligence, almost as a gift. Because they feel like either they will have learned something that then gives them the confidence to go forward in a great way, or they will learn that maybe it's not the right time. But they will have given this fledgling team a leg up for being able to get to the next stage. So maybe they can come back to them later. And actually, it's an interesting way for them to see how well they will have leveraged this gift in the meantime. And so, it's basically a win-win kind of equation for them.

Robert Morier: Thank you for sharing that. It's helpful from a practical perspective to hear how it can be employed. So, when you're trying to integrate character development into a team, what do you see are the biggest challenges as it relates to successfully improving that… those behaviors, whether it's the head of the strategy, their teammates, or potentially, as you were saying with the private equity firms that you're working with, your investments?

Kelly Kiel Garramone: Oh, people are so interesting and complex. There can be all sorts of challenges. It depends on the context. I think one of the maybe more common challenges is that people have generally figured out how to be successful in their late teens, early 20s. And they have their own winning formula. And it works for them. That's why they got to where they are and why we end up being there to work with them because we work with the top successful people. So, there's an attachment to the winning formula. There's a fear that if I change what I'm doing, that then that I just won't be so successful. So, a key to doing this work, first of all, is having, really, senior leaders go first and really be able to show how you can continue to be a very successful cutting-edge kind of leader and be willing to do this kind of developmental work and grow. But then when we're working with them as individuals, to give them the confidence and ability to do this, what we have to really understand is, what drives their behavior anyway? What is it that they need, or they feel like they are getting from this behavior? Like the example I've given you about the guy that was berating his team in the prep for the client pitch. He thought what he was doing was saving them from embarrassment. Once he understood that's not how it was coming across, he found other ways to save them from embarrassment that were productive. So, we're not telling people… in fact, we're very careful to stay attentive to people's needs, to make sure that the needs that they have around their behaviors are still getting met. We just say, now, is this still the most productive way to do it? And what other ways can you get that need met? Because you're right. Satisfying that need has been the secret to your success. Let's keep doing it. But let's now enlarge the number of ways you can achieve that and give you more tools in your tool kit.

Robert Morier: And just going back to the devil's advocacy side of this, but it's a concept that I've heard you talk about, and I've read about, which is this whole idea around productive narcissism. So, the folks that are just tough characters. They have a tough character, but they succeed. Their business succeeds, and their products succeed. So where is that balance struck between, again, thinking about it from an allocator's perspective, investing in that person who we know isn't the best? Who we know has character flaws, who we know is productive, but has these other qualities that seem pretty clear. So where can people strike a balance between the high character or the virtuoso leader that you describe in the Return on Character book versus the productive narcissist?

Kelly Kiel Garramone: Oh, that's such a great question. So often when the book first came out, people would say, well, yeah, what about Steve Jobs? That seemed to be their favorite example. What we would say about some of those, particularly the people that are really the once- or twice-in-a-generation kind of disruptors that create something just so unique, there's the exception, sure. But if you think you're the next Steve Jobs, then go for it. But I know that what you're asking for are the less spectacular examples of that. You just need to think about your risk profile. There's a greater degree of risk when you have a productive narcissist at the helm, who is creating a culture around that kind of… accepting that kind of behavior than there is with the high-character leadership team. One of the organizations in our original research was a financial services company that had an absolute rule that bad news had to flow up through the ranks to the CEO and the c-suite in no less than 24 hours, less than that, if at all possible. Anything that came to them within 24 hours of being understood was… you could deal with it. Anything after that, you took your career in your own hands. And they empowered everybody at every level of the organization to do that. So, you could be the receptionist, feeling like you saw something that was hinky, or someone on a sales team. And that… you won't get that, generally, in an organization where the culture is centered around a productive narcissist because there's too much risk of sticking your neck out. So, I understand that. I understand from looking at creating diversified portfolios that you might wince and still put that organization in your portfolio. But just know that you're doing it with an increased level of risk.

Robert Morier: That makes a lot of sense. Thank you for sharing that. I'm not sure where you keep your crystal ball in your home office. But I'm going to ask you to dust it off, if you don't mind. How do you see the future of leadership evolving with the growing focus on artificial intelligence?

Kelly Kiel Garramone: Yeah, that's… boy, that's the big question for everybody. Going back to what I said a moment ago about the highest character leaders having this integration of their heads and their hearts, what we believe… and again, I wish I had my crystal ball undusted here. But what we believe artificial intelligence will do is enhance more of the head side. It's going to give the head more information and more access to possibilities. But it's at that intellectual, heady level. What's still going to be necessary is the human side, is the heart. How do you then take this fantastic bit of information and analysis and humanize it? How do you make sure that then the people and the systems that are being impacted by these scenarios or these decisions or this information are treated with character and are engaged and are… and these decisions are meted out within the context of positive conditions that would enable people to bring their full talents and heart and energy and… to the table in order to succeed? So, it's that head and heart. We feel like the head's kind of exploding with AI. And it really makes then the people factor, we believe, even more of a critical element to the equation.

Robert Morier: Thank you so much, Kelly. So, if you wouldn't mind, some advice for our asset managers who are tuning in who want to invest in character-driven leadership. What advice would you be giving them?

Kelly Kiel Garramone: Oh, here, how about this? I know that KYC is a big part of everybody's life in the investment world. So, I think along with knowing your client, I would suggest you know your own character. Have this… it could also be character for you. Understand yourself and your own character. The more you understand the impact of your own character, the more you'll be able to see it in others. You'll get even more of a finely tuned radar on how others are… how congruently others are living within a positive, productive character. I was asked to work with the MBA… or an MBA club at MIT. And they wanted to bring character into their equation because they got all the hard skills that they needed through MIT. But I couldn't do a whole big assessment on all these students. And it was just not the right conditions. So, what we created with them, in collaboration with them, was something we called Two Clues and a Test. The clues are, listen to how people gently give you feedback. So, there's what we call the "excuse on a platter" cue. Like, oh, I know that so-and-so didn't come through for you. So, you were really held holding the bag. But… or I know that time's really short and everything, but… what are they saying after "but"? But you let me down in some way. Or, but I was disappointed or something. Listen to that. That's giving you a clue about how your character is showing up, what kind of reputation you're getting. Another clue might be we call the caveat clue. As they say, well, I know that these conditions changed. And so therefore, we have to change. But you… and then fill in the blank again. What are they trying to protect you from? Because they know you're good-intentioned, but you're not following through on it. Listen to those things. And then not only listen for what you're doing, but most importantly, listen to the impact that you not doing that, or doing it if it's something you're actively doing, is having on others. That's when you'll begin to understand and know your character and your impact. The test is, go to a close confidant and ask that person questions like, what does it feel like to work with me? When I make a mistake, how do I respond? When you make a mistake, how do I respond? Just find out more from someone who you trust of how you… or how you're showing up, and then what kind of impact that is having on others. Again, as I say… and this ties back to your question around, how can you assess others? Assess yourself first. Really get an understanding of your own character. But the impact, not your intent. You know your intent already. You don't need to test that. What you're looking for is impact of your character. And the more you know that and can see it and see the cascading effect of it, you'll recognize it in others right away.

Robert Morier: That's wonderful advice. Thank you for sharing that, Kelly. Well, I teach a class at Drexel University on due diligence. So, students are being taught how to analyze companies, particularly early-stage companies. And as we get to the end of that course, I always share this quote, which is, "No one can build you the bridge on which you, and only you, must cross the river of life." So, when do you know as a coach when it's time to let your client to build the bridge themselves? When is it time to let them go and see them off, that you feel, and they feel at that inflection point that they're… that some of those behaviors have been changed for the better?

Kelly Kiel Garramone: That's a lovely quote and a lovely idea. I look for two things. One is that they can begin to see the system in a way, that they can then lift up and look at, oh, when I do X, I can see then it has these effects. They can see the onward effect of it. Or when I don't do those things, oh, I notice there's a shift. Or it suppressed something. And it's not a surprise to them anymore. The second is that they then understand their own response patterns well enough that they can then begin to modify them when they see that shift or when they see that impact, and that they… in fact, that's a big part of what coaching is, is that we're always trying to work ourselves out of a job. What we're trying to do is help you see that system and then understand habit loops and habit patterns and behavior modification enough that you just adjust. In fact, that's part of what we learned in our research is that the highest character leaders naturally have that kind of rhythm and have that self-correcting kind of process. And so, we've examined that, learned about that enough that we can then teach others how to do it intentionally.

Robert Morier: Kelly, thank you so much. Thank you for being here today. Congratulations on all your success. We wish you nothing but future success with KRW and your business. We have learned a lot about ways to approach people in this conversation. And we're very appreciative of it. So, thank you for your time.

Kelly Kiel Garramone: Thank you, Rob. It's been a pleasure.

Robert Morier: If you want to learn more about KRW International, please visit their website at krw-intl.com. You can find this episode and past episodes on Spotify, Apple, or your favorite podcast platform. We are also available on YouTube, if you'd prefer to watch while you listen. If you'd like to catch up on past episodes, check out our website at dakota.com. And finally, if you like what you are seeing and hearing, please be sure to like,

follow, and share these episodes. We welcome your feedback as well. Kelly, thank you, again, for joining us. And to our audience, thank you for investing your time with Dakota.
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