

# **Beyond the Hedge: Coaching to Support Hedge Funds Create Value and Legacies Over Time**

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*Abstract: This paper identifies the reasons why succession planning has not evolved across the hedge fund sector. Methodology included interviews with industry leaders and a literature review, leading to identification of 1) characteristics of hedge fund founders, and 2) factors contributing to a lack of planning necessary to carry a firm beyond the founder's leadership. The researcher identified three coaching models that can be deployed to help hedge funds and their founders overcome the challenges to succession planning.*

Keywords: executive coaching, succession planning, organizational change, hedge funds

## **Introduction**

The purpose of this paper is to identify ways in which hedge funds can best retain and promote talent at a senior level in order to maintain stability and continuity. The hedge fund population continues to mature as the early well-known founders are reaching an age when they want to retire. As a result, many have returned outside capital to their investors or spend time managing their own money. Some have seeded other hedge funds that will thrive beyond the founder's own original hedge fund platform. Other founders have sold their businesses to entities giving up the culture and legacies they built, or have shut down entirely.

This paper can serve as a tool for hedge fund leaders who want to create something that will last beyond their years. The rationale is that with communication, planning, and the willingness of the founder, executive coaching can enable others to step into the shoes of high-profile investment managers. This will subsequently provide the potential for founders to retire or phase-out of the firm they created without it being shut down.

This paper identifies transition-related challenges for hedge fund leaders and successors, and the opportunities and competitive edge that exist with the development of a transition plan. As the industry

matures, this will be of great value to the researcher by combining her executive search and executive coaching as a method for transition management in an industry that has been focused on short-term rewards.

### **Review of Selected Literature**

The researcher's interest in this topic stems from over 30 years of hands-on Wall Street experience, coupled with more than 20 years of executive search and industry knowledge in the hedge fund sector. Having worked for a global, multi-billion, multi-strategy hedge fund, the researcher brings a pragmatic and realistic approach to the concept and research for this paper. In order to gather historical data and documented information on the hedge fund industry, the researcher was able to thread together common themes.

First the researcher read several popular books including, **More Money Than God**, by Sebastian Mallaby (2010), and **Hedge Hogging**, by Barton Biggs (2006). Second, she reviewed business journals including Harvard Business Review, Wall Street Journal, The Washington Post, Institutional Investor, The Hedge Fund Journal, and The Hedge Fund Law Report.

Furthermore, the researcher applied her own knowledge with first-hand research by interviewing eight industry executives each of whom are currently, or have within the last four years, run different departments in hedge funds that manage \$1B to \$10B of investor capital. Lastly, the researcher explored Google Scholar and the Columbia University electronic library database for scholarly literature reviews, e.g., The leadership/management conundrum: innovation or risk management? (Borgelt and Falk, 2007), The Succession Conspiracy (Lansberg, 1988), and Coaching the Entrepreneur: features and success factors (Audet and Couteret 2012). Key terms used while exploring this database for relevant articles included: executive coaching, leadership coaching, entrepreneurs, succession planning, and key man risk.

The table that follows introduces the reader to key terminology used throughout this paper to familiarize them with the concepts, terms, and processes relevant to the discussion of succession planning and coaching in the hedge fund industry.

Table 1.

*Descriptions of Coaching, Succession Planning, Hedge Funds, Organizational Change and Key Man*

<b>DEFINITIONS OF COACHING AND EXECUTIVE COACHING</b>	
<b>Author/Source</b>	<b>Description</b>
Co-Active Coaching” (Kimsey-House, 2011)	“The coach is kind of a change agent, entering the equation for change without knowing what the outcome will be. Goals and plans, new practices, new benchmarks, achievements of every kind are all part of the client’s ongoing work, facilitated by the coaching interaction. The coach is a catalyst, an important element in the process of accelerating change.”(p. 14)
R. R. Kilburg (2000)	“Executive coaching is defined as a helping relationship formed between the client who has managerial authority and responsibility in an organization and a consultant who uses a wide variety of behavioral techniques and methods to assist the client to achieve a mutually identified set of goals to improve his or her professional performance and personal satisfaction and consequently to improve the effectiveness of the client’s organization within a formally defined coaching agreement.” (pp. 65-67)
<a href="https://coachfederation.org/">https://coachfederation.org/</a>	“Partnering with clients in a thought-provoking and creative process that inspires them to maximize their personal and professional potential—coaches honor the client as the expert in his or her life and work and believe every client is creative, resourceful and whole.”
<b>DEFINITION OF SUCCESSION PLANNING AND MANAGEMENT (SP&amp;M)</b>	
<b>Author/Source</b>	<b>Description</b>
Succession Planning, (Rothwell 2005)	“Succession planning and management (SP&M) is the process that helps ensure the stability of the tenure of personnel. It is perhaps best understood as any effort designed to ensure the continued effective performance of an organization, division, department, or work group by making provision for the development, replacement, and strategic application of key people over time.” (p. 10)
<a href="https://en.wikipedia.org/wiki/Succession_planning">https://en.wikipedia.org/wiki/Succession_planning</a>	“Succession planning is a process for identifying and developing new leaders, who can replace old leaders when they leave, retire or die. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available. ...Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression.”
Effective Succession Planning, (Rothwell 2005, p.10)	“Succession planning has been defined as: a means of identifying critical management positions, starting at the levels of project manager and supervisor and extending up to the highest position in the organization. Succession planning also describes management positions to provide maximum flexibility in lateral management moves and to ensure that as individuals achieve greater seniority, their management skills will broaden and become more generalized in relation to total organizational objectives rather than to purely departmental objectives.” (p. 10)

DEFINITION OF HEDGE FUNDS	
Author/Source	Description
<a href="https://www.investopedia.com/terms/h/hedgefund.asp">https://www.investopedia.com/terms/h/hedgefund.asp</a>	“Hedge funds are alternative investments using pooled funds that employ numerous different strategies to earn active return, or alpha, for their investors. Hedge funds may be aggressively managed or make use of derivatives and leverage in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark). It is important to note that hedge funds are generally only accessible to accredited investors as they require less SEC regulations than other funds. One aspect that has set the hedge fund industry apart is the fact that hedge funds face less regulation than mutual funds and other investment vehicles.”
DEFINITION OF ORGANIZATIONAL CHANGE	
Author/Source	Description
<a href="http://www.businessdictionary.com/definition/organization-change.html">http://www.businessdictionary.com/definition/organization-change.html</a>	“Company or organization going through a transformation. Organization change occurs when business strategies or major sections of an organization are altered. Also known as reorganization, restructuring and turnaround.”
DEFINITION OF KEY MAN, aka KEYMAN	
Author/Source	Description
<a href="http://www.dictionary.com/browse/keyman">http://www.dictionary.com/browse/keyman</a>	“a person highly important or essential to the functioning of an organization, as the head of a sales force or branch office.”

**Origins / History of Hedge Funds**

In the 1950’s, Alfred Winslow Jones, “raked together \$100,000 to set up a “hedged fund,” generating extraordinary profits through the 1950s and 1960s. Almost by accident, Jones improvised an investment structure that has endured to this day.” (Mallaby, 2010). Since that time, the hedge fund industry has grown to become one of the most competitive and lucrative industries with \$3.55tn of investor capital invested in over 14,800 hedge funds across the globe (Prequin, Ltd. 2018). Over time, hedge fund managers and hedge fund investors have become savvier, but one thing has stayed constant; these managers, commonly known as “Titans” on Wall Street, or the “Barbarians,” have what Sebastian Mallaby (2010), refers to in the title of his book, as having “**More Money Than God.**”

Stereotypically, hedge fund managers are viewed as geniuses with big egos who do not fit into the boundaries of traditional financial institutions, and thrive in an entrepreneurial environment where they can create their own culture, hire their own people, and develop their own trading strategies. “The very structure of hedge funds promotes a paranoid discipline. Banks tend to be establishment institutions with comfortable bosses; hedge funds tend to be scrappy upstarts with bosses who think nothing of staying up all night to see a deal close.” (Mallaby, 2010). In this context the success and failure of hedge fund managers, is generally short-term focused, driven by their fascination with investment survival. The intensity of their investment personalities tends to overshadow the makings of an organization that can thrive and survive beyond themselves.

Hedge funds seemingly have a fairly low barrier to entry, except that a new hedge fund manager needs to show that they can raise capital and manage risk. “The hedged concept was easy to copy, and there was no need to share the loot with a dilettante overseer.” (Mallaby, 2010). This point of view has become a familiar concept amongst hedge funds whereby a founder starts up a hedge fund, hires his or her investment team, essentially training them, only to lose their number two person to start their own fund, and reap the same steep payouts as their former bosses.

In close to seventy years the hedge fund industry has matured to thousands of hedge funds managing money for foundations, endowments, pension funds, high-net-worth individuals and family offices. The hedge fund founders have also matured. In Greg Zuckerman's article, “The Graying of the Barbarians,” (WSJ Jan. 5, 2011), he writes about the top CEO's of private equity firms who are showing no signs of retiring, thereby raising concerns for their investors whose money is locked up for longer periods of time. He states, “Succession matters less at hedge funds, because investors generally can withdraw money on a quarterly basis if they are displeased with a firm's direction.” Many have managed successful hedge funds for decades, and do not have plans to retire, nor do they have the ability to create an infrastructure to support them once they do retire.

However, similar to private equity firms, hedge fund CEO's are growing older, and although some hedge fund assets are more liquid than others, there is a growing concern amongst investors and employees as to who will take the helm, and carry the culture forward when these "key men" retire or step out of their daily activities driving the returns, and creating that "special sauce" that others may not be able to replicate.

## **Related Concepts**

Considering the limited information published on coaching specifically for hedge funds, it will be helpful to understand some of the related terms that are used throughout this paper. Most importantly is identifying that a founder, as in a hedge fund founder, may also wear the title of "CEO" and is an entrepreneur.

Entrepreneur. "Researchers point to the derivation of the word "entrepreneur" from the French *entreprendre* and the German *unternehmen*, both of which mean literally "to undertake," as in accepting a challenging task. They refer to the groundbreaking development of the concept by Cantillon (1680–1734) and Say (1767–1832), and to the vital contribution of Schumpeter in the 20th Century (see, e.g. [Dees, 1998](#): 2f). What emerges from examining the writings of these scholars is the picture of entrepreneur as risk-taker and innovator who, when successful, contributes fundamentally to creating economic value. [Tan, William and Tan \(2003\)](#) arrive at a similar understanding of the concept by considering "intuitively plausible examples" of entrepreneurs and non-entrepreneurs, and consulting the *Oxford English Dictionary*. "Entrepreneurship," they conclude, "is the process of attempting ... to make business profits by innovation in the face of risk" (2003: 10)." (Peredo and McLean 2006)

### Succession Planning and Management (SP&M) and Replacement Planning.

"Succession planning and management should not be confused with replacement planning, though they are compatible and often overlap. The obvious need for some form of replacement planning is frequently a driving force behind efforts that eventually turn into SP&M programs...In its simplest form, replacement planning is a form of risk management... The chief aim of replacement planning is to limit

the chance of catastrophe stemming from the immediate and unplanned loss of key job incumbents...However, SP&M goes beyond simple replacement planning. It is proactive and attempts to ensure the continuity of leadership by cultivating talent from within the organization through planned development activities. It should be regarded as an important tool for implementing strategic plans.” (Effective Succession Planning, Rothwell, 2005, p. 16)

### Executive Coaching.

Kampa-Kokesch and Anderson define executive coaching per the International Coaching Federation (The ICF) as: “Executive coaching is a facilitative one-to-one, mutually designed relationship between a professional coach and a key contributor who has a powerful position in the organization. This relationship occurs in areas of business, government, not-for-profit, and educational organizations where there are multiple stakeholders and organizational sponsorship for the coach or coaching group. The coaching is contracted for the benefit of a client who is accountable for highly complex decisions with [a] wide scope of impact on the organization and industry as a whole. The focus of the coaching is usually focused on organizational performance or development, but may also have a personal component as well. The results produced from this relationship are observable and measurable.” (International Coaching Federation Conference, 2000).

### Corporate Governance.

Corporate Governance has been around for quite some time, but in recent years, corporate governance has gained more importance as investors seek to invest in hedge funds and other investment vehicles that are socially responsible. (<http://www.investmentnews.com/article/20180210>) This ranges from the actual types of companies in which the funds are making investments with the belief that by digging deeper into these companies, investment outcomes will be greater. Corporate governance in hedge funds has become more prominent post the stock market crash in 2008. “Corporate governance practices for hedge fund firms are more closely examined today than at any other time in the history of the industry...hedge fund

firms have experienced a shift in their investor composition from high net worth individual investors to institutional investors...Institutional investors have shown that they view the evaluation of governance and oversight as it relates to risk management, valuations, operational controls, transparency and the investment process as important as analysing a hedge fund manager's investment performance." (Hedge Fund Governance and Oversight, Moody's Investor Service, July 2011). Succession planning is included in corporate governance as investors are keen on understanding the long term effects of the firm.

#### Family Offices.

The Washington Post article, *Once Considered the titans of Wall Street, hedge fund managers are in trouble* (Merle, May 29, 2017), states that hedge fund managers who have been considered "titans of Wall Street" "have thrived under a simple premise: They are smarter than the average investor and can produce bigger profits." They have been able to reap the benefits of outstanding returns for many years; some have outperformed others, many are still in the business after launching over a decade ago, but many have fallen to the wayside due to poor performance, or the founder has just called it quits. Others have returned capital back to their investors, and turn their companies into "family offices," exclusively managing their own capital. For those funds that are still surviving or thriving, they are focused on making money, maintaining the old boys club feeling that was familiar when they started the firm, and keeping the entrepreneurial feel.

### **Summary of Major Findings**

Several themes have surfaced while conducting a literature review of the evolution of hedge funds in regards to the lack of succession planning in these types of firms, and the consequences of the founder's departures. The research has also revealed the successes several firms have achieved by planning for succession.



### Founder Perspectives/Concerns.

- “Hedge fund managers are thinking about succession planning earlier on than they used to... They want to have clear plans in place as part of the drive to become more institutionally palatable – and sometimes to help facilitate strategic deals.” (Lovell, March 2016).
- Many of these firms are frightened of scaring off their investors by naming a firm successor especially when the key man has been running a firm for so many years. Alternatively, they may have to accept these key man clauses. (Scherzer Gross, Hedge Fund Interviews, April 2018).
- Many hedge fund managers believe that their activities within their firm’s should be kept a secret as to not scare off their investors. (Lovell, March 2016).
- During Taub’s research, he found that two hedge funds in particular “handed the reins over to a new generation.” These firms are D.E. Shaw and Renaissance Technologies Corp., founded by David Shaw and Jim Simons, respectively. The majority of the trading strategies for both firms are quantitatively driven and the founders have not been actively involved in the day-to-day trading decisions of these firms. Specific to these firms and their succession transitions is “the fact that both firms are quantitatively oriented, relying mainly on the algorithms and programming talents of their legions of Ph.D.s rather than on the analytical skills and gut instincts of a veteran trader who picks stocks based on painstaking fundamental analysis.” (Taub, 2012).
- Other hedge fund journals, including Institutional Investor’s article, *Big Hedge Funds’ Succession Problems: Who will follow in the footsteps of high-profile hedge fund managers? Not many of them know.* (Taub, 2012), point to the fact that Shaw and Simons handed over their day-to-day investment activities to investment teams over a decade ago prior to them getting involved in outside activities and overseeing the direction of the firm. Highbridge Capital Management is another example of a successful transition in leadership. In 2004, the firm sold a stake of their

business to JPMorgan Chase. The founders, Glenn Dubin and Henry Swieca, who never were traders but had senior management roles, and had others run their investment strategies, stayed on with the firm. Dubin became Chairman and CEO, and Swieca stepped down and exited the firm over time.

### Employee Perspectives/Concerns.

- Of growing concern are hedge fund employees who have supported the success of their founders. Based on interviews conducted in the industry, employees feel they are often left in the dark, wondering what will happen to them if the founder leaves the firm, whether it is planned or sudden. (Scherzer Gross, Hedge Fund Interviews, April 2018).
- Firms that are quantitatively driven “relying mainly on the algorithms and programming talents of their legions of Ph.D.s” versus relying on fundamental analysis have shown greater success in transitioning a firm to an individual or to an investment team. This is due to the fact that founders have been removed from the day-to-day investment decisions, and have been able to spend more time on bigger projects such as the strategic direction of their firms. (Institutional Investor, Taub, 2012).
- When it comes to hedge funds, and they are not alone, “Many requirements must be satisfied if organizations are to survive in a fiercely competitive environment. One key requirement is that replacements must be available to assume critically important positions as they become vacant. Indeed, “succession planning, like a relay race, has to do with passing on responsibility. . . . Drop the baton and you lose the race.” (Effective Succession Planning, Rothwell, 2005). Specific to most hedge funds is that they typically do not have the infrastructure in place in contrast with Renaissance Technologies and D.E. Shaw where talent has been built out over time both vertically and horizontally. This type of infrastructure enables investment teams or investment committees to be identified to take over day-to-day activities. In many firms, one

person has been identified as the heir apparent supported by a team of other employees or a formalized committee.

#### Investor Perspectives/Concerns.

- The closure of hedge funds after the departure of a founder is not new: “investors and the sponsors are interested in knowing that the fund firm can continue despite a change in leadership.” ([www.thehedgefundjournal.com/content/succession-planning](http://www.thehedgefundjournal.com/content/succession-planning), Lovell, April 2016).
- Investors are seeing succession planning as a competitive edge, and are looking for it in the corporate governance of firms they are considering to invest their capital. (Scherzer Gross, Hedge Fund Interviews, April 2018).
- Some firms have been successful at executing a succession plan by taking 5 to 10 years to make the transition. The strategy has involved identifying, mostly from their internal talent pool, who will become the successor, clearly communicating it in their marketing documents, and rolling it out to their investors so there are no surprises. By the time this happens, the founders are in a position to inform their investors that their successors have been running the day-to-day activities for years, and subsequently, their stepping down will have little impact on the continuation of the firm’s performance. This is supported by Ivan Lansberg (The Succession Conspiracy, Lansberg, 1988) who describes how difficult it is to create a succession plan for family firms.

#### Perspectives/Concerns for All.

- Another point of view is “The failure of these businesses to continue as family firms beyond the tenure of their founders has serious social and economic consequences. The firms that are sold to large bureaucratic firms are subject to the self-interest and standardized bureaucratic policies of the purchasing organizations. ...The liquidation of a family firm constitutes a loss not only to the proprietary family, which often has most of its assets tied up in the firm, but also to the

employees and surrounding community, whose economic well-being depends on the survival of the business.” (*The Succession Conspiracy*, Lansberg, 1988).

- In Taub’s Institutional Investor report he highlights the fact that several “veteran” hedge fund managers who are in their 60’s, 70’s and 80’s, are billionaires and have no plans to retire. These familiar names from Taub’s report include: Izzy Englander, the founder of Millennium Management in 1989, Leon Cooperman of Omega Advisors, and Carl Icahn. Other funds in which “Their personal investing prowess is the very lifeblood of their enterprises...include such luminaries as Louis Bacon of Moore Capital Management, Steven Cohen of [Point72], Paul Tudor Jones II of Tudor Investment Corp...to name a few.” (Taub, 2012). Some of them continue to be involved in the day-to-day trading activities, are the face of the firm to their investors who are looking to that one person to produce the returns they are expecting. Taub states, “For every hedge fund investor who stays in the game into his golden years, many more will look to step back, whether to retire and enjoy their earnings or to pursue philanthropic or other activities. And never before has such a large class of well-heeled investors reached that stage in life.” In Taub’s interview, Izzy Englander stated “To pass on a firm where the principal is the dominating persona making the money is very difficult because finding a replacement for someone like that is very difficult.”
- Englander’s statement is plausible, but it has successfully been achieved by several hedge funds whose brands seem sustainable over the test of time, such as D.E. Shaw and Renaissance Technologies. And investor and employees want to know who will be pulling the trigger when the founder steps down. (Taub, 2012).

The key findings above are supported by the second portion of the researcher’s methodology in which she conducted interviews with senior leaders active across most investment and non-investment functions found in hedge funds. By using semi-structured interviews, the researcher asked each of the senior

leaders the same series of questions for consistency and to stimulate conversations about the succession of hedge funds, the importance of creating legacies for hedge funds and the benefits and concerns of doing so. Due to time constraints to complete this study, the researcher used a convenient sample of senior level people from her own personal network, and a snowball sample of people who met the researcher’s criteria who were referred by her primary network to ensure the sampling was broad enough. The interviewees included 6 men and 2 women, ranging in age from 40 to 58 years old, located in New York City, Greenwich, CT and Boston, MA each with approximately 15 years on average of experience working for hedge funds.

Everyone asked for anonymity and that there not be direct attribution to any of them. The researcher interviewed a Chief Financial Officer (CFO), Chief Operating Officer (COO), General Counsel (GC), Chief Technology Officer (CTO), Head of Human Resources (HR), Head of Investor Relations (IR), Fundamental Portfolio Manager (PM), and Quantitative Portfolio Manager (QPM). Below are the hedge fund leaders’ answers to the researcher’s questions.

Table 2.

*Responses of Hedge Fund leaders*

INTERVIEW QUESTIONS	RESPONSES
<b>Why Create a Legacy?</b>	<ul style="list-style-type: none"> <li>• “Be different. Don’t let the franchise fade into oblivion.” (CFO)</li> <li>• Create value and stability for employees and investors (ALL)</li> <li>• Opportunity to provide equity for employees who can have longevity and more ownership of the firm going forward (ALL)</li> <li>• “There is an expectation that we live beyond our founders” (COO)</li> <li>• Makes financial and investor audit inquiries easier (CTO)</li> <li>• Provides an opportunity for the founder, employees and investors to keep their money invested in the firm (ALL)</li> </ul>
<b>Who Benefits?</b>	<ul style="list-style-type: none"> <li>• The founder, employees and investors (ALL)</li> <li>• “Alleviates anxiety amongst the employees and investors” (CTO)</li> <li>• “Transition ownership to those who add more value” (COO, GC, HR, IR, QPM)</li> </ul>
<b>What are the Risks?</b>	<ul style="list-style-type: none"> <li>• Investors will fear that the firm is not sustainable without the founder (ALL)</li> <li>• “Focus has been on short term goals versus long-term responsibilities” (QPM)</li> </ul>

	<ul style="list-style-type: none"> <li>• “It’s better to have multiple #2’s so you don’t have a single point of failure” (CTO, PM)</li> <li>• Increases the complexity of management, point of contact and communication (CTO)</li> <li>• Investors are seeking to invest in hedge funds that have a succession in place. As a matter of fact “this is becoming a competitive advantage for those firms that do” (GC)</li> </ul>
<b>Perceived Challenges with Founders</b>	<ul style="list-style-type: none"> <li>• “It’s not hard to do the transition, the founder just needs to want to do it.” (CFO)</li> <li>• Wall Street is about getting paid today, so why work on something for the future? (ALL)</li> <li>• What are the incentives for the founders? (ALL)</li> <li>• Does the founder have enough humility to realize they are not a unique savant? (CFO)</li> <li>• “Egotistical and narcissistic founders may want to look back and say “look, they can’t survive without me” (CFO, QPM)</li> <li>• “These are traditionally patriarchal hedge funds; when the founder’s gone, it’s all gone” (COO)</li> <li>• The founder who is the majority owner “doesn’t want to give up control and deplete their economics” (CFO)</li> <li>• The founder wants to be a culture carrier and has a hard time giving up their “baby” to others (CFO)</li> <li>• Founder will have diminished self-worth by giving up control (GC)</li> <li>• Founders need a succession plan on day one; set up a date for the transition, and hold to it (HR)</li> <li>• “Need to get rid of secrecy and have transparency” (PM)</li> <li>• “Need to get rid of egos and the attitude ‘they need me’” (PM)</li> </ul>
<b>Perceived Challenges with Successors</b>	<ul style="list-style-type: none"> <li>• “There are plenty of geniuses on Wall Street, so it should be easy to go out and hire a replacement” (CFO)</li> <li>• Very hard to find someone from the outside to fill the shoes of a founder (COO, GC, HR, IR, PM, QPM)</li> <li>• “You can’t just move your best PM into run the company; they lack broader skills” (CFO, GC, HR, IR, QPM)</li> <li>• Better to have more than one person be the successor (GC, HR, IR, QPM)</li> <li>• Important to have an internal candidate or people who have been with the firm for several years to become the successor(s). They are the culture carriers and have been trained by the founder (COO, GC, HR, IR, PM, QPM)</li> <li>• Need to groom people for succession over time and build trust (COO, GC, HR, IR, PM, QPM,)</li> <li>• Success is created along the way; the firm needs to build lots of layers (COO, GC, HR, IR, PM, QPM)</li> <li>• The designated successor(s) will get impatient and want to take over sooner than later. This can result in this individuals or team leaving the firm, or create dissention amongst the ranks and with the founder (GC, HR)</li> <li>• “Need to create a broader executive committee in case the lieutenant/ heir apparent does not work out or gain the respect to be a successor” (COO, GC, HR, IR, PM, QPM)</li> </ul>

<p><b>How Coaching Can Help Hedge Funds Create Legacies</b></p>	<ul style="list-style-type: none"> <li>• Facilitate communication and create an action plan (CFO)</li> <li>• Hedge funds need to create a framework (ALL)</li> <li>• The coach is essentially a transition agent (ALL)</li> <li>• Coaches can help determine if the successor(s) is/are the right candidate for this; and whether circumstances support a transition (ALL)</li> <li>• Need to provide coaching to the successor(s) and founder in tandem (ALL)</li> <li>• The coach can provide feedback to the founder and successors (CTO, HR)</li> <li>• Coaches can help with: “1) the preservation of the enterprise; 2) retention of top talent; 3) ability to attract investment capital because the company will be able to promote longevity” (GC)</li> <li>• The coach is a mediator, who is mediating between the founder who doesn’t want to give up control, and the successor who doesn’t want to wait (HR)</li> <li>• This is about retention, promotion and succession (HR)</li> <li>• Employees want human resources and structure. As a firm evolves employees can be coached on their people skills (PM)</li> <li>• Coaches can work with founders and successors on creating culture (CFO, COO, GC, HR, IR, QPM)</li> </ul>
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The major takeaways from the responses from the above hedge fund leaders include:

- It is hard to recruit outside talent to succeed a founder
- It takes years to groom a successor or team to take on the day-to-day responsibilities of a founder so that comfort in carrying the firm forward is realized by the employees and investors
- Clients and investors do not want to be kept in the dark regarding the future of a firm when a successor is getting older and no successor has been named
- It can be viewed as a competitive edge for hedge funds that have developed and communicated a succession plan to their outside investors. This is also recognized as a retention tool for existing employees and investors since it takes out the guessing game of what happens next
- Executive coaches can be utilized as “transition agents” by facilitating communication and creating an action plan. Furthermore, the coach is a mediator who can work closely with the founder and successor to help elicit their best thinking and expectations.

### **Application and Implication for Coaching Practice**

The researcher is proposing a practical and tactical implementation of executive coaching to facilitate the development of succession planning in hedge funds by leveraging the use of three models. One based on

Robert Kegan and Lisa Laskow Lahey’s Immunity to Change Model (ITC) (Kegan & Lahey, 2009). ITC is a model used to help clients understand, when they have had a problem making a change, what is getting in their way of moving forward to reach a specific goal. The model identified in Table 3 is a tool used to facilitate discussions about what gets in the way between a person’s intentions and actually enacting change. This model can be used with hedge fund founders who have been having a hard time overcoming change and creating a succession plan.

Table 3.

*Immunity Map Worksheet*

Improvement Goal	Behaviors That Go Against My Goal	Hidden Competing Commitments	Big Assumptions
<p>What I’d need to do differently:</p> <p>Commitment: what are the goals, benefits and reasons for coaching?</p>	<p>What am I doing / not doing that is not supporting the commitment stated in column one?</p>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">Worry box:</div> <p>Competing commitments (conflicting behaviors or assumptions that go against the commitment stated in column one)</p>	<p>What are the big assumptions founders may have that make these commitments necessary?</p>
<p>Example:</p> <ul style="list-style-type: none"> <li>• “I need to reframe my key work responsibilities for my last few years at the firm to really focus on a succession plan”</li> </ul>	<p>Example:</p> <ul style="list-style-type: none"> <li>• The founder is still meeting with new clients</li> <li>• The founder is spending time on day-to-day activities, thus not spending time on leadership functions and grooming the heir apparent or succession team</li> </ul>	<p>Example:</p> <ul style="list-style-type: none"> <li>• If the founder is not at key meetings, things will fall apart</li> <li>• No time to plan for the future / investment performance is more critical</li> <li>• Doesn’t want to give up day-to-day investment activities</li> <li>• Diminished self-worth</li> <li>• The founder is irreplaceable</li> <li>• Doesn’t want to retire</li> <li>• “What’s in it for me?”</li> </ul>	<p>Example:</p> <ul style="list-style-type: none"> <li>• The founder assumes there is a better time than now to focus on creating a succession plan</li> <li>• The founder assumes that if the hedge fund is successful after they depart, their value will be diminished</li> </ul>



An example of the coach's role is to facilitate the planning in all the phases of the transition. In essence, the coach is a transition agent, mapping out a plan for the future of the fund. Executive coaching is needed to support the transition of an investment committee or heir apparent moving into the leadership role. At the same time the firm's founder is being coached to give up the reins and communicate to investors and employees that survivorship of the firm can happen.

Several issues seem to be at stake when dealing with the founders and the successors, since each of these individuals have their own agenda. For the founder, it may be hard to give up control of what they may have started from scratch; having close ties to their "baby," diminished self-worth, and a fear of losing their identity. (Lansberg, 1988). On the other hand, the successor, or the succession team, may be overly eager wanting to take control and exert their authority and leadership sooner than later. Either way, the change in roles, expectations and communication all need to be managed carefully and thoughtfully.

The second model that the researcher draws upon to effectuate change is the Columbia Coaching Certification Program (CCCP) Coaching Process (Global Insights Consulting, LLC, 2013). The CCCP considers this process the map by which the coach navigates through the coaching process.

Figure 1.

CCCP Coaching Process

## Coaching Process



Below is a configuration of the CCCP Process combined with sample questions developed by a third framework, known as ORID. ORID is a questioning and listening tool used to facilitate conversations with people and connects to the Columbia University Coaching Process. It relies on the “Context” phase of the coaching process utilizing mostly ‘objective’ and ‘reflective’ questions to gather data. During the “Content” phase, the coach uses mostly ‘interpretative’ questions, some reflective questions and less objective questions. During the ‘Conduct’ phase, the coach depends mostly on decisional questions to move a client’s actions forward and into implementation. “Objective (O): What’s happening? Reflective (R): How am I feeling/reacting? Interpretive (I): What does it mean? Decisional (D): What do I do/respond?” (Columbia University Coaching Certification Program 2018). Table 4 is a detailed outline of the CCCP Process. It highlights the phases and questions a coach may ask its client, in this case, a founder or successor, a representative list of ORID questions during each phase of the coaching process, and is used to support the challenges identified in a hedge fund making a transition.

Table 4.

CCCP Coaching Process: Phases, Components & Tasks

	<b>COACHING PROCESS PHASES</b>	<b>COACHING STEPS WITH FOUNDERS &amp; SUCCESSORS at HEDGE FUNDS</b>
<b>CONTEXT</b>	<p><b>Entry and Contracting (Trigger/Framing - Engagement &amp; Session)</b>  <b>Inquiring</b> about the nature of the presenting problem, trigger event, challenge or opportunity  <b>Surfacing</b> hopes and concerns  <b>Clarifying</b> expectations about the parameters of the coaching process</p>	<ul style="list-style-type: none"> <li>• Contract with the Founder, CEO or Board of Directors of the firm</li> <li>• Identify the nature of the coaching engagement, concerns, limitations, the gap of where they are today and where they want to be (create a succession plan in a set time frame)</li> <li>• Clarify the expectations of the coaching engagement.</li> <li>• Coaching founder and successor or succession team</li> </ul> <p><b>(O)</b> What is the issue?  <b>(R)</b> How do you feel about this issue?  <b>(I)</b> What is the importance of this topic?  <b>(D)</b> What do we need to accomplish?</p>

	<p><b>Developmental Frames</b> (Mental Models/Worldview) <b>Clarifying</b> client’s relationship (identity/concept) to self and to others <b>Determining</b> emotional &amp; social capacities (strengths &amp; limitations) <b>Building</b> the client’s capability for growth and change</p>	<ul style="list-style-type: none"> <li>• Clarify that the leader is ready to move towards a succession plan and what his/her role will be over the course of that time</li> <li>• Leveraging the “aspiration frame”</li> <li>• Determine if the founder/CEO is ready to make these changes in the organization</li> <li>• Need to determine if the successor and/or team is ready to lead the firm, or what steps need to be taken to get the heir apparent ready</li> </ul> <p>(O) Succession planning sounds important to you; tell me more (R) What is inspiring you to make this change? (I) What is the key issue? (D) What strengths can you drawn upon to move forward?</p>
	<p><b>Situation Analysis</b> (Data Collection &amp; Synthesis) <b>Engaging</b> clients in the identifying questions to focus data collection and feedback <b>Co-creating</b> data collection strategies to determine what information is needed <b>Working</b> with clients to diagnose the situation</p>	<ul style="list-style-type: none"> <li>• Collect data from other funds that have created successions plans and have had positive transition</li> <li>• Co-create data collection strategies from human resources, employees, investors relations and clients on their needs during and after a transition</li> </ul> <p>(O) What questions do you have? (R) Where are you really clear? (I) What is the most important question you would like answered? (D) Where will you go to get the answers to your questions?</p>
<b>Outcome: Focus (learn from perspective)</b>		
<b>CONTENT</b>	<p><b>Feedback</b> (Giving and Receiving) <b>Inviting</b> clients to pay attention to observational feedback (in action and from others) <b>Urging</b> clients to summarize and interpret <b>Facilitating</b> the examination of hunches about potential disparities</p>	<p>(O) What types of feedback have you received? (R) What have you observed? (I) What does this feedback tell you about yourself (founder and successor)? (D) How will you use this feedback?</p>
	<p><b>Exploring Options</b> (Payoffs &amp; Unintended Consequences) <b>Asking</b> provocative questions to stimulate imaginative thinking about the future <b>Practicing</b> “feed-forward” with various options to help clients illuminate possible futures <b>Prompting</b> clients to consider potential benefits and costs of options before taking action</p>	<p>(O) What are your wants, needs, aspirations and potential outcomes for: 1) yourself (founder/successor); 2) employees; 3) clients? (R) When thinking about the future, what will the firm look like? What will be its competitive edge? (I) What insights are emerging? (D) What changes will you make that will benefit you and the organization?</p>
	<p><b>Planning</b> (Priorities, Goals &amp; Critical Success Factors)</p>	<p>(O) What is your goal (R) What has worked in the past? (I) How will these goals be achieved? How will</p>

	<p><b>Stimulating</b> clients to integrate insights and define focus</p> <p><b>Collaborating</b> with clients to create a coaching plan and SMART goals, while attending to emergent goals</p> <p><b>Reaffirming</b> client’s agenda (align goals with personal values &amp; organizational priorities)</p>	<p>they be measured? By when/what is the timing?</p> <p><b>(D)</b> What steps do you want to take today (in a month, years, etc.) that will get you closer to your goal? Set priorities</p>
<b>Outcome: Alignment (learn for knowledge)</b>		
<b>CONDUCT</b>	<p><b>Action Strategies (Experimentation &amp; Pilots/Reflection-on-Action)</b></p> <p><b>Helping</b> clients discover opportunities for ongoing learning (sessions/work/life)</p> <p><b>Combining</b> challenge with support</p> <p><b>Celebrating</b> client’s successes and capabilities for continued growth</p>	<p><b>(O)</b> What other information is available?</p> <p><b>(R)</b> How will taking this step feel for you?</p> <p><b>(I)</b> What else do you need to think about?</p> <p><b>(D)</b> How can the coach support you in getting this done?</p>
	<p><b>Growth &amp; Renewal (Strategic Insight)</b></p> <p><b>Creating</b> opportunities for clients to conduct honest, ongoing self-appraisal</p> <p><b>Translating</b> insights about strengths and limitations to focused &amp; aligned commitments</p> <p><b>Findings</b> ways to promote self-renewal (e.g., work-life balance)</p>	<p><b>(O)</b> What is working for you? What is not working for you at this point?</p> <p><b>(R)</b> How are you feeling about your work/life balance?</p> <p><b>(I)</b> What insights do you have to help you move more towards your goal?</p> <p><b>(D)</b> How will you hold yourself accountable?</p>
	<p><b>Execution (Reflection-in-Action)</b></p> <p><b>Holding</b> client’s attention on what’s important by following up on commitments</p> <p><b>Building</b> client’s capacity to recognize “teachable moments”</p> <p><b>Modeling</b> flexibility and adaptation by moving back and forth (e.g., “big picture” focus &amp; making daily adjustments)</p>	<p><b>(O)</b> What commitments have you met?</p> <p><b>(R)</b> What are you most excited about?</p> <p><b>(I)</b> What will it mean for you to continue to meet these goals?</p> <p><b>(D)</b> How will you adjust?</p>
<b>Outcome: Performance (learn from experience)</b>		

### Conclusions

Although this paper does not include first-hand research and interviews of hedge fund founders, it has the distinction of identifying the issues inherent in hedge funds and the coaching steps that will be needed to identify some of the fundamental issues. This paper also outlines a process to contribute to the success of creating longevity and legacies in hedge funds post the departure of their founders.

While conducting research major themes were identified, highlighting barriers and contributors to successful succession planning. With executive coaching and the coach as the agent for transition, the researcher explored ways in which an employee can grow from individual producer to being an heir apparent, and how a founder of a hedge fund can create a succession plan over time that will enable his or her company to outlast their departure or day-to-day involvement. By creating a plan and with the help of a coach, a hedge fund can create continued employment opportunities for their employees who helped the founder succeed in the first place, and continued investment opportunities for their clients, and perhaps even a competitive edge over those funds that do not have a succession plan.

Lastly, Kampa-Kokesch and Anderson discuss, what the researcher finds most relevant, “By turning outward to an executive coach, executives may receive something valuable that they are missing. Lukaszewski (1988) identified the inability to gain access to people who ask questions, provide advice, and give counsel as the greatest difficulty facing senior executives. He noted that most people close to executives are afraid, or do not know how, to confront them regarding their behavior. The purpose of executive coaching is to provide these functions. An executive coach's role is to provide feedback to the executive about his or her behavior and the impact it has on others both within and outside the organization (O'Neill, 2000; Witherspoon & White, 1996b). Given this type of feedback, executives gain increased self-awareness, self-esteem, and better communication with peers and subordinates (Kilburg, 1996c), which in turn may lead to increased morale, productivity, and profits (Smith, 1993).” (Kampa-Kokesch and Anderson, 2001). In the case of hedge funds, there may not be a problem, but rather an opportunity to explore where the gaps are and how to get from current state to desired state.

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