

SELECTED INVESTOR QUESTIONS RECEIVED THROUGH OCTOBER 4, 2018

Question

Besides the classic financial reward (salary + bonus + shares), what does Constellation usually do to attract, retain and motivate its employees, especially at lower levels in the organization structure? In other words, what drives the employees to make "the extra effort" for their business units? Does the company track employees' engagement and morale metrics among its Operating Groups? If yes, what is the evolution of these metrics as the company gets bigger and more decentralized?

Response

There are two questions. I'll respond to the second first: Does CSI track the engagement & morale metrics of our Operating Groups?

Engagement and morale metrics are not something we track from head office. Implicit in the question, is the assumption that superior employee engagement and morale, coupled with head office supervision, will lead to better company performance.

I noticed employee engagement as a topic a couple of months ago when one of our groups hired a speaker to talk about it at their off-site meeting. A bit of casual Googling showed me that employee engagement was starting to get buzz in the business press and Amazon had a slew of books on the topic by general purpose business gurus ("GPBG"). I'm suspicious of GPBG's, so I started digging for relevant scholarly research. A resource that I like is the Centre for Evidence Based Management's library website, where you can search for systematic reviews and meta analyses (<http://cebma-library.org/>). Normal humans don't have the time and/or skills to wade through 1000's of research papers to generate informed opinions. Systematic reviews and meta-analyses do a lot of the work for us.

The consistent criticisms of employee engagement as a cause of business unit performance seemed to be three-fold: employee engagement is a fuzzily defined concept, it isn't clear that it causes performance (although a correlated concept, job satisfaction, does appear to be a cause performance), and there are a large number of other factors that have statistically significant effects upon performance, the most compelling of which is an employee's satisfaction with their supervisor.

One of the fundamental beliefs at CSI, is that autonomy motivates people, and bureaucracy does the opposite, so we try to do as many of the important monitoring tasks with as light a touch as possible. I notice CSI managers who can't retain good subordinates. This isn't data provided by a head office supervisory system and doesn't involve any bureaucracy... just personal awareness. I think our Operating Group Managers and Portfolio Managers monitor turnover similarly. This practice seems more likely to improve performance with less effort than tracking engagement and morale metrics.

And the first question: What does CSI do to attract, retain and motivate employees?

Our internal recruiters use all the normal methods to attract new employees: job boards, search consultants, LinkedIn, referral fees for current employees who generate successful candidates, etc. Attracting employees works best for me via my network. I get better folks who tend to stay. Retaining employees seems to require big doses of opportunity and occasional empathy: Opportunity because the best employees want more... more knowledge, more money, more responsibility, and more autonomy.

Empathy because they are pushing their limits and sometimes crack. Motivation seems to come from the team and the task. If employees work with people that they respect on tasks that are important, then finding the motivation isn't a problem.

Mark L.