
Peerless



Defy Convention
Lead from the **Heart**
Watch What Happens

Tom Ferguson
with Sue Howard

Doing the right thing is not always easy.

In fact, it rarely is. This is especially true when leading people—the temptation is always there to take a shortcut.

But real leadership has no shortcuts. It requires time and passion and sacrifice.

Peerless: Defy Convention, Lead from the Heart, Watch What Happens showcases exactly that kind of leader, one of the select few who have figured out a better way—a way of leading that not only builds a great organization, but builds great people as well. Tom Ferguson has captured the powerful stories of ten leaders who are successful in every sense of the word—men and women who are loved by their associates and who have built lasting legacies on firm foundations. The stories of purpose, trust, imagination and faith contained in these pages reveal how leading from the heart creates strong businesses, dedicated employees, and the legendary leaders of tomorrow.

“I have discovered one unwavering truth: Heart centered leaders attract heart centered followers. Peerless leaders are at their best when they lead with both strategy and humanity. But before strategy takes hold, leaders must be worthy of following. This kind of effective leadership is more a way of being, rather than technique. Leaders that operate from their beliefs and passions—for their business, employees and customers—inspire others around them by their cause.”



TOM FERGUSON

It's easy to tell what matters most to Tom Ferguson. “I want to help move the inspiration paradigm,” he says. “I've seen the awesome power of executive validation. It affects everything. Not just the workplace, but families, mental and physical health, everything. All people have gifts, and my life's mission is to help CEOs in organizations of all kinds celebrate and honor the energy and commitment that people bring to work every day.”

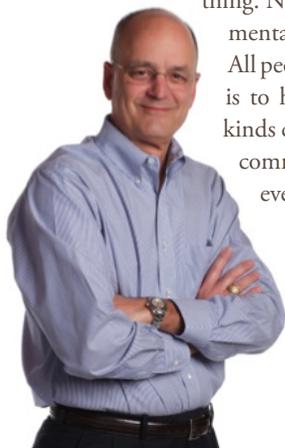
Peerless: Defy Convention, Lead from the Heart, Watch What Happens is his first book.

www.heartmattersinc.com

SUE HOWARD

Sue began her writing career as a journalist with the Hartford Courant. She went on to work in the fields of government and financial services, specializing in communications planning and branding, and now lives in Houston, Texas. She is a graduate of the University of Connecticut.

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John Montgomery

More than Money

Had he known more about entrepreneurship, John Montgomery says he might not have turned his hobby into a business. Had he been educated on how steep and uncertain the climb would be—how hard it would be to create a viable capital investment firm—he admits he may not have taken the risk.

If he had stayed where he was and kept his day job with Houston's public transit system, he would have missed out on three years of angst watching his savings dwindle. The countless hours on the phone trying to coax the financial press into writing about his fund performance would never have happened. The dream in the middle of the night—a graphic image that illustrated a unique way of investing in the market—may not have woken him from a deep sleep.

And then came the nights when he and his wife Ann rushed from home to the office to turn over the telephone machine recording tapes because the press coverage had finally broken. Thousands of people were calling and the phone system couldn't keep up.

Most of all, had Montgomery chosen not to pursue his passion for making money grow, the world would have missed out on the countless ways that Bridgeway Capital Management has changed lives. Today, nearly twenty years after Montgomery set out on his quest in the early 1990s, Bridgeway Capital Management has an established reputation for making a profound impact on a diverse conglomeration of communities. Its fund performance is praised by investors; its commitment to the world's most vulnerable citizens is known internationally and at home; and its

people speak of their work in the context of a higher purpose.

The company makes millions of dollars, but not only for well-to-do clients; fifty percent of its profits go to nonprofit organizations locally and around the world. Decisions are based not on short-term deal making, but on the collective and individual accountability of its partners with the long view and stewardship in mind. Unlike in many companies, the vast differences in upper management's compensation compared to most employees does not exist; no one at Bridgeway is allowed to make more than seven times the lowest full-time salary in the firm. Everyone shares the title of Partner. And in 2010, Bridgeway was selected as the fourth best workplace out of 25 on Entrepreneur Magazine's List of Best Small & Medium Workplaces.

Departing from an Industry Norm

It's a common belief in business that the best time for charitable giving occurs toward the end of life. Most financial advisors say you should concentrate on amassing wealth in your younger years when your earning potential is greatest and then wait until later before disbursing it. It is also widely acceptable for the heads of mutual fund companies to make millions and millions of dollars that support lifestyles bearing no semblance to those of their employees.

Montgomery grew up in Houston's River Oaks neighborhood, the home to some of Houston's wealthiest citizens. His parents were role models who taught him that all work was honorable and that anything was possible if you believed in it strongly enough. His father Jeff, a lawyer and engineering company executive, grew up on a ranch in the German Hill country; allergic to hay and horses, he spent endless hours in the refuge of

the town library. He graduated from Texas A&M with what was at the time the highest grade point average ever achieved. As a young woman, Montgomery's mother Leonora had not planned on marrying; she had grown up under the influence of a suffragette mother who was one of the first women in her community to drive a car. John, the youngest of the four Montgomery children, spent his childhood tagging along with his mother as she volunteered and served on boards. After Jeff Montgomery died in 1982, Leonora earned her doctorate in religious studies at Rice University and at that point a grandmother, went on to become a Unitarian minister.

“I had some idea that more money was not a good thing. I didn't want more stuff; I thought that was a trap.”

Influenced by the independent thinking of his parents, as a young man Montgomery was wary of the posh lifestyle that was typical for many of his neighbors. He attended the exclusive St. John's School in River Oaks, but took himself out for a semester to enroll in a primarily African-American school in one of Houston's most impoverished neighborhoods. He spent a summer working in brutal heat as he toiled as a deck hand on barges in the shipping lanes of the Gulf of Mexico. He attended Harvard Business School, but then accepted the salary of a public servant when he took a job with Houston METRO.

Later when Bridgeway finally turned the corner and began to make a profit, Montgomery was able to follow through on his plan to donate half the money to social giving. “Ann and I already had achieved the American dream,” he says. “I had some idea that more money was not a good thing. I didn't want more stuff; I thought that was a trap.”

By doing so, Montgomery defied the common business practice of putting all one's earnings into the business and waiting until later to give back philanthropically. "It would be a lot more fun along the way to make a significant difference for people," he says.

As it turned out, deciding to cut into the company's profits accelerated Bridgeway's growth more than Montgomery ever imagined. It attracted talented, passionate people to work there as well as new investors. "If we had never done this, we'd be less than half the size we are," he says with an ironic smile. "Being a generous company makes good business sense."

Attracting Purposeful People

Before joining Bridgeway, Dick Cancelmo created his own mutual fund which he called West University Fund. Learning of Montgomery's similar pursuit, Cancelmo made a call and the two men met over lunch. They shared their fascination with the intricacies of fund management as well as their excitement about

"The people here really do love each other. You don't hear about that in a corporate environment."

creating wealth for investors. They were surprised to learn they had both taken trips to Pennsylvania to meet Bernie Klawans, a retired aerospace engineer at General Electric known for creating the Valley Forge Fund, a low-risk portfolio that he managed by himself in a side room adjacent to his garage.

Rebecca Hove came to know Bridgeway by assisting with its foundation administration and strategic plan while working for a private philanthropic firm in Colorado. Later Bridgeway invited Hove to come in-house. Although she loved her life in Colorado,

Hove saw a unique opportunity at Bridgeway. “Sometimes you have to give up something of great value for something of even greater value,” she says. As a Congressional intern at the time Mother Teresa of Calcutta was awarded the Congressional Medal of Honor, Hove had been moved to live her life differently but wasn’t sure how to do it. “This is really who I am and what I’m all about,” she thought, as she considered the Bridgeway offer. “Here was this investment management firm, totally breaking the mold. I really want to live this dream. I want to do extraordinary things.”

Mike Mulcahy had experienced many disappointments in the finance world before joining Bridgeway. Two of his former bosses had been sentenced to federal prison for their roles in the downfall of ENRON; four had been censured by the Securities Exchange Commission. The salaries at Bridgeway weren’t in keeping with his expectations as a Harvard Business School graduate but neither was the behavior he had already witnessed close hand at other companies. “The people at the top [at Bridgeway] are certainly giving up something to work here,” he says. “But this is a wonderful place to work. When I was in a hospital bed with neck surgery, John was at my bedside. The people here really do love each other. You don’t hear about that in a corporate environment.”

Cancelmo believes Bridgeway’s success is because of people like Hove, Mulcahy and the other partners attracted by its culture. “First and foremost it’s the people you attract,” he says. “You have to understand and embrace that fifty percent of our profits are going out the door. We wouldn’t be where we are if we didn’t have that as our core fabric. We attract people with greater aspirations than a paycheck.”

The firm’s culture also challenges partners to think like owners and consider the long term future of the company, says Cancelmo, who manages Bridgeway’s Partner Stock Option Plan on

top of his daily trading responsibilities. “People will make better decisions,” he says.

A Culture Based on Equality

The absence of hierarchy at Bridgeway was Montgomery’s way of fostering a culture in which everyone had a say in the firm’s decisions. It was a culture intended to reinforce the individual and collective accountability of its people. The only title at Bridgeway was “Partner”—the term “Employee” was absent from the company vocabulary. But as the firm grew, some of the dynamics began to change, and in 2010 a companywide survey showed that only ten percent of the partners perceived accountability as a top strength.

“I didn’t know we thought that about ourselves,” says Montgomery. Exploring the issue, he learned that the lack of hierarchy allowed people to seek guidance on decisions not necessarily from colleagues with the best insights, but those with whom they were most comfortable or who were most likely to agree. And because everyone’s opinion was welcomed on all aspects and operations of the firm, some partners were concerned that views were shared too liberally, and not always constructively, in third-party “water cooler” communication circles. The survey results told Montgomery that “we were doing a really poor job coaching leaders on culture and how a non-hierarchical organization can thrive.

The survey results also came two years into the global recession, and with the mutual fund industry in the crosshairs of the crisis, Montgomery took quick action. “The industry was under siege,” he says. “We needed to move significantly and fast.” He and his wife Ann were equally committed to keeping Bridgeway’s culture alive. “Ann sees things others don’t,” says Montgomery, recalling

his wife's concerns. "I just want to make sure that we don't lose the soul of Bridgeway," said Ann. "How do we guard that?"

To address the concerns around accountability and efficiency, Montgomery created the role of Partner in Charge, which defines a partner's area of responsibility and designates a team to manage the activities involved. Mike Mulcahy was named CEO with responsibility for the firm's operations, while Montgomery took on the role of Partner In Charge of Culture.

At the same time, Montgomery signed on with Ann McGee Cooper & Associates to firmly instill the concept and values of servant leadership into the firm's culture. The Dallas-based firm has taught the principles of servant leadership since 1976; its founder Ann McGee Cooper is an internationally recognized expert in the field of leadership who was mentored by Robert K. Greenleaf, the founder of the modern Servant Leadership Movement and the Center for Applied Ethics, which was renamed the Robert K. Greenleaf Center.

"John saw a need to make a change to keep the company going forward," says Bill Baumeyer, who works in the firm's customer service area. "There's a little bit less of that freedom to do things the way you want to do it, but we meet goals more efficiently. The Partners in Charge have more freedom to drive the direction, and most of the teams have been okay with that."

"He really showed his mettle, I think," says Cancelmo, who was designated Partner In Charge of Bridgeway's trading functions. "He took back some structure and accountability using the servant leadership model. He wanted accountability, but not hierarchy. It's not like we didn't have the servant leader mentality already; we just crystallized it. If you take care of folks who work for you then you will take better care of their organization and better help the mission."

Vision Into Reality

“Vision is what I do. Turning vision into reality. That really is the best use of my time,” says Montgomery. “I literally can see things and know where we can go before we get there.”

Montgomery is also admired for recognizing where his strengths are less pronounced, like in communicating the details of how to reach his visions. “He’s a brilliant, scatter-brained person,” says Mulcahy. “To his credit, he is known to fill in the gaps with people.”

The result is that Bridgeway has continued to survive the economic challenges that have affected the mutual fund industry and other financial institutions so profoundly. While other mutual fund companies have laid off scores of employees, Bridgeway has made modest gains in hiring. Hove says it continues to be a unique and refreshing place free from the stereotypes and constricts of corporate America, a “very tight knit close family environment where people are free to express who they are.”

“John is unwavering in his vision,” says Mulcahy. “His commitment to the mission and the vision is reaffirmed at every management meeting. His belief that we will be successful is an amazing rudder on the ship. He really does create an ideal in people’s minds.”

“This place is like a white board,” says Hove. “John is one who is constantly seeing blank canvases and the pictures that could be there. We are the ones who can create that picture whether we do the painting, hang the painting, or appreciate the painting. Our role is to bring to reality what John creates out of nothingness.”

“He flies at thirty thousand feet,” says Cancelmo. “He is a true visionary.”

Mike Mulcahy, Dick Cancelmo, Bill Baumeyer

Living an Ideal

On his first day at Bridgeway Capital Management, Mike Mulcahy's Human Resources orientation was interrupted when the company owner clanged a bell and called to order a company-wide meeting of the partners. "Let's huddle," proclaimed John Montgomery.

Gathering with his new colleagues that December 2 morning, Mulcahy was astonished by what he heard next. "You have until December 15," said Montgomery, "to give away \$15,000."

"I thought, that's kind of interesting," says Mulcahy. "That's like my signing bonus. I didn't feel like giving that away."

Mulcahy had spent a full eight months of exhaustive interviews before landing the job, but still, "I had no idea what I was getting into." And perhaps sensing his newest partner's consternation, Montgomery explained, "We give you the money to give away."

Mulcahy left his first day of work assigned not with creating a financial strategy or business development plan, but to do some soul searching and decide what things were most important to him and to whom he would give \$15,000.

A Mission that Transcends Money

Mulcahy's initial surprise, and a subsequent deepening of appreciation for the company's commitment to social action, is not unique among the people who work at Bridgeway Capital Management. Some say its practice of donating fifty percent of its profits to charitable causes was an interesting aspect to the company but not personally relevant; some say they awakened slowly to the possibilities that volunteer opportunities presented; in some cases, they say they weren't at all interested in the giving aspect of the firm when they signed on to work there.

Bridgeway's attraction for Dick Cancelmo was the way it made money for its shareholders. Like John Montgomery, Cancelmo had created a mutual fund on his own, and he respected Montgomery's approach to money management. "John recognized his ability to make money," says Cancelmo, explaining his affinity to the Bridgeway owner, but the similarities ended there. "He also had the vision of a company that gave back, and I had no such vision. When I first worked here, that aspect of the company wasn't the primary interest. What really interested me in John was that he put shareholders first."

Things have changed. Today, in addition to heading the trading floor at Bridgeway, Cancelmo is an advisor to the Shepherd Poverty Program, a multi-million dollar initiative that integrates the academic study of

poverty with college student internships in impoverished communities. The program, aimed at instilling a commitment to social responsibility in future business and professional leaders, got its start at Cancelmo's alma mater, Washington and Lee University in Lexington, Virginia. It spread nationally with Bridgeway's support and Cancelmo's leadership to include students at Rice, Baylor and Furman universities, and today it flourishes at more than twenty American colleges and universities.

The understanding of what can happen when an organization's culture transcends business by embracing a larger purpose was an inspiration for Cancelmo, who already had an appreciation for service outside of work as a Eucharistic minister and Rotarian. He saw his success in managing fund performance for shareholders ultimately translating into playing an influential role in supporting critical societal needs. "I have a trader mentality, living in the moment, going from stock to stock, from fund to fund. 'Let's just get this done.' You can't take that mentality out of the trading room. It helps you to think about your life and you try to become a better person," he says.

"It's different here because you don't just come in to punch the clock," says Bill Baumeyer, who manages Bridgeway's customer support operations. "There's a common theme in that your work isn't just work. You're here because you make a difference."

Baumeyer, an avid soccer fan, connected Bridgeway with Cherish our Children International (COCI) and

Hapoel Tel Aviv's Bridge to Peace program in Israel. The project aligned with Bridgeway Foundation's mission of eliminating oppression by bringing children of different ethnic and religious backgrounds together to learn about their differences through the game of soccer. Eventually Baumeier took on a leadership position as COCI's treasurer, and from time to time found himself encountering complex management issues. Due to Bridgeway's culture, he was able to consult with other partners who also participated on boards to gain insight that helped him effectively make sound decisions. "I could go to them and say, 'How does your organization deal with this?' You could shoot questions off and get help," he says.

Coming from "Big Money"

Bridgeway is known for its long and intensive interview process that requires multiple signoffs from the firm's partners before a hire is complete. In Mulcahy's case, the process was particularly intense. "People were wary about me," he says. "I was this 'Big Money' guy."

Mulcahy had worked at the global consulting firm of McKinsey & Co. before joining ENRON, where he reported first to CEO Jeffrey Skilling, and then to CFO Andrew Fastow. Both men were subsequently sentenced to federal prison for their respective roles in the downfall of the company. "I am really uncomfortable with the way these guys are doing business," Mulcahy told his wife one day in a phone call. "I'm quitting."

Mulcahy went on to join Compaq, working in mergers and acquisitions, and held several more positions in the areas of finance and venture capital before joining Bridgeway. A graduate of Harvard Business School, he had a strong appetite for making lots of money. Bridgeway caps its highest salary at seven times that of the lowest full-time partner, not necessarily a good match for Mulcahy's aspirations.

But Mulcahy also held a strong belief that the world of finance needs to be grounded in moral values. An active member of his church and a dedicated husband and dad, Mulcahy was intrigued by a Houston Chronicle article that described Montgomery as an unpretentious, flute-playing, church-going man. He called Montgomery about making an investment, and set up an appointment to visit the offices. His first impression was vivid—"Basic brick building, not like I expected, very cheap, tables, stacks of paper." He and Montgomery talked. Before leaving the office Mulcahy wrote two checks; and soon thereafter he was attending Bridgeway board meetings as an advisor.

Making Changes at Home, Abroad and in Business

His family's decision in Mulcahy's first two weeks at Bridgeway—they donated the \$15,000 to two Houston area charities that serve the poor and homeless—has since grown into a commitment to service and sacrifice

through humanitarian missions in other countries. With Bridgeway contributing half the cost, Mulcahy and other Bridgeway partners and their families have embarked on numerous service trips around the world.

On a trip with his two sons to Central America with Living Water International, Mulcahy watched his eighth grade son react emotionally to the experience while his seventh grade son seemed unfazed. “Dad, we have so much. They have so little. They’re so happy and content,” said his older son. The next year they did another Living Water mission and this time his younger son was touched. “He said the exact same thing,” says Mulcahy.

Members of the Mulcahy family—the children now range in age from twelve to twenty—have traveled to Honduras, Mexico, Guatemala, El Salvador and Belize on missions to create sustainable safe water solutions and address human rights. “It’s much bigger than just giving dollars,” he said. “It changed our family life.”

The Mission Spreads

In accordance with its mission of “Inspiring and enabling transformative change”, Bridgeway’s commitment to social action is being felt in many places and on different levels. Its foundation is leading initiatives to prevent oppression, genocide and human rights violations in Uganda and Rwanda; in Houston, Bridgeway volunteers stock food pantries, adopt families at Christmas, clean up city parks and help kids build bikes.

Bridgeway partners are also challenging the world of business to take a leadership role in influencing social change. Montgomery, Mulcahy and others engage in public speaking to spread the word to business leaders, and initiatives like the Shepherd Project are aimed at infiltrating business environments with people who are aware of and committed to addressing difficult societal issues. Cancelmo's vision through the Shepherd Project is to create business models like Bridgeway's in companies that hire graduates of the program.

"We're not trying to create social workers," he says. "Instead we're tying an understanding of poverty into your area of study. You will then take that understanding into your job and weave it into your company."

More than Money

"I wandered in the wilderness for eight years," says Mulcahy of his career prior to Bridgeway. "It was like one horrible experience after another. Each of them led to disappointment."

It was with those memories that Mulcahy recently called a meeting of Bridgeway partners to discuss some bad news. The shrinking economy has been hard on mutual funds, and Bridgeway hadn't escaped. Bridgeway needed to tighten its belt.

"Frankly I was scared to deliver the message," he says, remembering the behaviors he'd seen in prior cost-cutting environments: the isolation, fear, and backstabbing.

Assembling Bridgeway's partners, Mulcahy said, "This is where we are financially. This is what we require. If there are more downturns, we may need to take a pay cut. We're committed to keeping the team together as much as we can."

But instead of retreating into isolation, instead of leveraging one's personal security at the expense of someone else, the partners formed a steady stream into the Bridgeway CEO's office for the next few days expressing their commitment to Bridgeway's future.

"You let me know what Bridgeway needs. Tell me how I can help," said one partner.

"How do we make this work?" asked another. "We don't want to give up giving."