

Untying the Knots of Business Equity

Bob Veres E-Column 7/9/2010

As the planning world gets older, a growing number of advisors are finding themselves on a very difficult path: transitioning their RIA firm from a practice to a self-sustaining business. If you want your clients to be cared for according to your (high) standards after you retire, if you want your staff to be rewarded for the work they've done for you, if you want to stay involved in planning work throughout semi-retirement, then your best, surest--and maybe most profitable--avenue is to create a planning business that can outlive you.

This is the second in a series of articles and e-columns on this important subject. Over the past six months, I've interviewed advisors who have purchased other firms and two larger advisory firms that are looking to expand nationally through selective acquisitions. I've talked with owners of smaller practices who are transferring ownership to their designated successors, and others who are using their study group to explore valuation and transition issues--and the possibility of creating a larger entity. Consultants and consolidators have offered their perspectives, and the e-column after this one will feature a detailed look at the new report on enterprise value by Mark Hurley, along with his comments during an hour-long interview.

The interested reader should also consider attending the Larger Firm Exchange conference, August 11-13 in Newport, RI (https://www.napfa.org/conferences/conference.asp?CONFERENCE_ID=119), which is the only program I'm aware of that brings together advisors who are building more substantial firms in the planning space. This year's agenda features an MBA-level curriculum on the various issues involved in evolving beyond the practice stage of your business. (Some of you may know Cheryl Holland of Abacus Planning Group; she's the conference chair this year.)

Let's start by focusing on what one of the speakers at the LFE conference, psychologist and practice dynamics consultant James Grubman (www.jamesgrubman.com), identifies as the most basic and fundamental part of the transition. Before anything else, Grubman says, the shift from practice to business involves a difficult change in mindset. The hard part is that the change has to happen in two places at once: both from the founder/owner of the firm, and also among key staff members.

Why is this so hard? Look at your own practice. Grubman says that many firms are strong at the top, with most of the skills and knowledge residing with the founder. They are typically less strong at the staff level--in part because the founder/owners followed the conventional wisdom offered by management consultants: they hired people who have "complementary skills." That sounds innocent enough, until you realize that "complementary skills" means hiring people who can do everything EXCEPT the rainmaking and client-facing activities that the owner/advisors bring to the table. When the advisor goes home at night, all the expertise in the business's two most important activities walks out with her.

So advisors are unlikely to feel comfortable about giving up their marketing and client-facing roles until and unless they see untrained staff members--who were hired to do other things--step up and start taking over those functions.

At the same time, the advisor may be held back by a hidden psychological hurdle. Many (perhaps most) founding advisors have a lot of their self-identity--self esteem or ego--bound up in controlling the activities of their firm. As the go-to person, they play a crucial role. If they were to give up that "go-to" distinction, what are they? "For the charismatic, successful person at the head of the firm, this transition may feel like giving up an important part of their identity," Grubman explains.

This is the source of a lot of vague misgivings that you hear from advisors about "getting bigger." On some level, probably unconsciously, they are concerned becoming less special or important.

All of this means that before you can start on the journey from practice to business, you have to solve a two-part problem, not unlike one of those complicated knots that have to be unraveled in two places at the same time. The transition from a firm that leverages the advisor's skills to a business that could service clients whether or not the advisor comes in to work that day requires owners to voluntarily step aside and make themselves less relevant, and entrust crucial activities to a staff that is nowhere near ready to handle the advisor's role.

My guess is that many readers, looking at their own firm, are nodding ruefully at this bleak assessment.

So where do you start to unravel this knot? How do you start the process of changing these reciprocal mindsets?

Grubman believes that advisors need to see their staff acquiring those client relationship skills before the process can proceed any further. That's one of the places where he steps in. "Probably more than many other colleagues, I do an awful lot of role-playing of client scenarios," he says. "Most advisors roll their eyes and groan when we talk about role-playing, but they invariably walk away having gained the most by actually doing it."

In one example, Grubman asked a high-producer female advisor to role-play the financially clueless wife of a male client. Another advisor in the exercise talked to her about how and why the markets were tanking. "Afterwards, she was just stunned," says Grubman. "She said, 'I never put myself in the client's shoes like that before. It was completely different than I thought it was going to be.' The other advisor had spoken with a lot of jargon, and was a bit condescending and sales-oriented," Grubman continues. "She said, I never would have seen that with the same eyes if I wasn't playing the client."

Even if the founder has hired one or more financial planners out of college, there is still work to be done before he/she feels comfortable handing over client-facing duties. Grubman has found that many university-trained advisors never had a chance to develop their emotional intelligence. "Those who would be attracted to the field may have less interest in the emotional/relationship aspects of the service, and more in the numbers," he says. In addition, many younger advisors don't (yet) have the life experience to relate to complex client situations.

Grubman helps bring the staff planners up to speed in two ways. The "curriculum" includes communication techniques like active listening in prospect meetings, understanding what clients really want from an advisor, helping clients cope with grief, dealing with couples--all of which, of course, are the key marketing skills and client management skills that represent the firm's core mission and service." As a psychologist, I tell them about things that they may not yet have experienced," he says. "I try to help them understand what the client may be going through in a way that maybe they have not, themselves, experienced yet."

In some cases, he can find relevant experiences in their family of origin, in struggles that can be extrapolated more broadly. "I had a student once whose parents owned a jewelry business, and they were pressuring him to go into it," says Grubman. "He broke away and was becoming a financial planner. He doesn't have experience counseling people, but seeing that he has been on the receiving end of a pretty intense family business dynamic gave him a perspective he had not been able to put together, that he will now bring to working with clients."

That starts to address one side of the knot. On the other side, Grubman tries to bring the founder/owner's internal conflict to the surface with some degree of clarity: how can you make yourself less of a decision bottleneck and still remain important? What other role could you play that is relevant or even crucial to the firm, but facilitates (rather than blocks) the transition from a practice to a viable business?

"Here, my role is putting into words something that they may have understood only on a gut level, and had a hard time putting their finger on" Grubman explains. "It is also working on helping them understand that they can still be very necessary, but just in a different way than they used to be."

Grubman explains the transition in great detail, but it boils down to something that is simple to talk about, even if it may not be easy to do: shifting from the person who makes the decisions to the person who functions as a mentor, teacher and coach. Instead of telling everybody what to do every day, the advisor comes into the office ready to encourage the growth and development of the people in the firm.

"To grossly oversimplify it," Grubman says later in the conversation, "instead of it all being, come to me and I'll tell you what to do, or give you the answer to that, it is: let me teach you more, so that you can do it yourself. The principal needs to shift from being the leader and repository of the firm's knowledge and skills," he adds, "to being somebody who begins to teach and share and pass on and distribute that knowledge into the firm."

As the founder/owners accept this role, they begin to realize that Grubman's work with the staff is teaching them how to play that mentor role. Meanwhile, he happens to be focusing on the particular skills that the founder/owner may be least able to teach.

Meaning? A lot of advisors, Grubman explains, have an intuitive, natural ability to work with clients--so innate, in fact, that they don't always know how to explain it. In Grubman's best analogy, it is a little like a fish trying to teach somebody to swim; the process comes so naturally that it's hard to articulate the steps, procedures and skills that go into it.

"Part of what I have somehow been able to manage over the years is to be a kind of translator, an interpreter," he says; "to be able to teach people who may have moderate emotional intelligence how to improve their listening and client communication skills in a way that somebody who could do it intuitively would have trouble putting it into words."

As advisors begin to mentor their staff, they begin to realize that it's not as hard as it looks. For example, they don't have to develop some kind of curriculum in order to pass on what they know. The staff already comes to the founder/owner for decisions and direction, which means that for the most part, the teaching opportunities come to you.

As the twin knots begin to unravel, advisors are often surprised at what they discover. "In the early days of the firm, having everybody come to you was very satisfying," Grubman explains. "But often as we get into these issues, particularly with advisors who are a bit older and thinking about transition issues, they realize that they were starting to get tired of that role. When they step into that new role, which is encouraging the development of management and client skills, it starts to reenergize them. It often dovetails with where they are in life, wanting that new challenge, that different role."

Another side effect is dramatically enhanced staff loyalty. How often have you heard advisors complain that they hire a young planner, train her and trust her with client relationships, and then she leaves, taking some of those clients with her? How often have you heard advisors swear off the idea of hiring anybody in a trusted role ever again as a result of this experience?

"There is this mysterious form of turnover which starts to happen because the principal doesn't understand that people need to be motivated, not just by money, or even in a certain way, by performance," Grubman explains. "They can get that in many places. People are most highly motivated by the opportunity for growth, by the opportunity for leadership, in the development of their skills, even including those management skills we've been talking about. And more than that," he adds, "they want somebody to take an interest in their evolution."

When the staff members are mentored, when the company principal takes an active interest in their development, turnover goes away, and the staff displays new motivation to take on new responsibilities.

"If you think about it, this is the same dynamic that we've seen with good client relationships," says Grubman. "You can do a great job of performance for clients, but they might still leave you if the relationship is not tended properly. Those advisors who pay attention to the staff relationships, and address their needs emotionally, will get much higher levels, not just of satisfaction, but of loyalty."

Everybody reading this has heard Mark Tibergien talk about viewing your staff as an investment rather than a cost. I think most of us understood this in financial terms. But Grubman says that this is not even primarily a financial investment; it is a personal one.

Another byproduct of the transition, of course, is less work by the founder/owner. And finally, as the knots are unraveled, as staff becomes more competent and confident, as the founder/owner becomes less crucial to the day-to-day operations, the value of the planning practice will rise dramatically. The advisor's firm becomes increasingly valuable as the mentor activities become more effective.

Of course, this is an idealized view of how the process works; there are always at least a few obstacles along the way. One of the most difficult occurs when key employees are not willing recipients of mentoring or who cling stubbornly to the dysfunctional status quo. "I find that sometimes firms have not done very good hiring," says Grubman. "They have started to collect people who may not have been good choices in the beginning, while the ones who are really good may have gone on elsewhere."

In his engagements, Grubman will do a staff review for the founder/owner, but the process itself can sometimes be more revealing than the assessment. In firms where the founder/owner rules with an especially tight fist, Grubman says the first challenge is to encourage the staff people to believe that there is going to be positive change. "You may have people who simply don't have any reason to believe that they're going to be empowered or encouraged," he says. "Sometimes, they're afraid to believe."

The best cure for this skepticism is having upper management truly start listening to the people on staff. In many of his engagements, Grubman will help the owner create more opportunities for genuine interaction: brown bag lunches, more open staff meetings, more one-on-one mentoring activities, and quarterly (rather than annual) staff retreats. "Changing the nature of those normal interactions can have a lot of positive effects all by itself," Grubman explains.

Of course, there may still be people who really don't want more responsibility. With these, the founder/owner needs to make some decisions about who to keep and who to let go. Meanwhile, Grubman may help the founder/owner revamp the hiring process, replacing the usual "where did you go to school, where have you worked, what are your goals"--to a more powerful behavioral interview format: "what would you do with clients if they came in with a certain problem and portfolio allocation?"

Sometimes, in the initial or later interviews, the owner may role-play with the prospective hire. "You want them to describe situations they've been in and how they handled them," says Grubman; "getting deeper into how they think, their experience and expertise in managing an actual client relationship. It moves you away from knowledge toward skill, which is something that I tend to emphasize in my consulting. Over again you find that skill makes the difference, not just knowledge."

As he's worked with advisory firms over the years, Grubman has developed a database that collects and analyzes the results of different emotional intelligence assessment tools he has used. Surprisingly, it shows that most advisors have emotional intelligence scores toward the lower end of the range; in the vernacular, they are technicians rather than people persons. "The advisors who score in the average to somewhat high end of the scale tend to have the best client relationships and organizational function," says Grubman. Among his sample, company principles have tended get much higher scores than the staff advisors--which means that the advisors caught in the first part of the knot were probably correct; their staff wasn't ready to take on their duties. It also means that advisors with high emotional intelligence may be somewhat rare, and therefore difficult to find and hire.

How do Grubman's consulting arrangements work? He will typically be on-site at your location for two initial days, meeting with the principal(s) for half a day, with the staff for half a day, and with both together

for a full day. He and the principal(s) will give the staff an overview of the changes that are going to take place, and give staff members a chance to talk about their concerns, their successes, when they are feeling energized, and any other relevant input before they begin to untie the knots. There is talk about how to give feedback, how to delegate, how to hold people accountable. "We'll use some of the straightforward ideas on management: the One-Minute Manager, for instance," says Grubman. "And some of the conversation is simply about the fact that these are skills that you will need to cultivate."

From there, Grubman will conduct phone discussions and return to the advisor's office as needed, perhaps to facilitate the first couple of quarterly staff retreats.

Cost? Depending on how often Grubman is on-site, the fee will range anywhere from \$50,000 to \$80,000 a year--with his typical engagement will be a firm with between \$500 million and \$1.5 billion in assets. (Or, as mentioned earlier, in the group setting of the Larger Firm Exchange conference--where some owner/founders are bringing their key staff members.)

Grubman sees himself as a change agent in the planning field, at a time when change is happening with uncommon speed. "When I started this consulting work, I was working with some of the pioneers who are entering the second phase of their careers," he says. "Now it is not so much the pioneers any more; it's more normal operating procedure for successful firms and people who want to make the transition from one type of firm to another."