Succession Planning for People in the Succession Business

Post-transition firms share their hindsight and wisdom.

By Jim Benson & Cam Anderson

In seasoned, upper echelon financial services firms, rainmakers find themselves approaching their golden years: they have a vision for their next phase of life, yet they lack an ideal solution for achieving it. One of the greatest challenges facing top privately-held advisory firms is that of business succession

If the rain maker simply slows down, overhead as a percentage of revenue will begin to consume more and more of disposable income. At the same time, clients and prospects are beginning to ask the dreaded question, "What will happen to us when you retire?" New affluent prospects wonder silently or out loud, "What happens if you come face to face with that proverbial bus?" What they're really saying is, "What's your succession plan?" Lastly, it becomes difficult to recruit quality staff. That's because the firm's vague succession plans cause candidates to wonder about their future with the company. The communities at large are, in essence, asking these senior advisors to practice what they've preached for so many years.

> "Business succession is the number-one long-term issue facing established firms we work with." Owners are aware of the issue, yet they don't know where to start in pursuing a solution.
>
> Larry Rybka, President and CEO of ValMark Securities

These challenges leave owners with tough questions. Do you want the final years of your multi-decade tenure to end in a slowdown or decline? Or would you prefer to exit on a high note, fulfilling client commitments and leaving your mark on the industry by continuing your firm's legacy for generations to come?

Succession for financial services firms carries great opportunities. There are proven indicators of success to rely on as well as time-tested processes. In addition, for firms that transition their operation from a practice to a business – putting necessary processes and team members in place – there is a tremendous amount of available capital for potential acquisitions or mergers.

Lack of succession assistance: a universal challenge

In a 2007 study conducted jointly by LIMRA International and Moss-Adams LLP, 60 percent of all producers indicated that succession planning assistance is not provided by their current broker/dealer affiliation. The study also found that one in four producers age 48 to 55 plans to retire or sell their practice in the next five years. Approximately one in ten producers rated their broker/dealer's succession support as inferior to the other services they receive.

The study also found that having an orderly transition plan offers the following advantages:

- Transferable value is maximized avoiding the need for a "fire sale"
- Suitable management successor is identified and ready to take over at time of transition, assuring minimal disruption to ongoing practice operations

- An opportunity to provide a clear career path by grooming a less senior agent for succession
- The selling agent enjoys peace of mind knowing that clients of the practice as well as the staff will be properly taken care of
- Clients have peace of mind regarding continuity of their relationship with the agency or practice even after the advisor is no longer personally managing the relationship.

> "I would look for someone who had a commitment to something larger than oneself. What you're trying to create has to be more important than either party's self interest. You have to put your own interest in proper proportion to the whole situation of client care."
>
> George Groome

This White Paper: a documented solution

We interviewed over two dozen multi-million dollar firms that have successfully transitioned to the second, third or fourth generation. This white paper documents the results of those interviews.

We found that, to a large degree, successful firms built over multiple decades have already done much of the hard work; they have established premier brands. The foundation of trust, integrity and relationships are the ingredients for succession. What remains is the development of a clear critical path to allow successors to take the reins.

This paper identifies key crucial areas that these firms employed for effective succession: selection, training, setting expectations and measuring progress, transferring equity and relationships, determining compensation and a variety of types of subjective advice that came out of the firms' experiences.

The successor selection process

There are a variety of key competencies to look for in determining whether a potential successor brings the critical raw material to the succession table. It may be helpful to engage a professional who has an objective process and can test for these attributes in your top candidates.

Analytical Conceptual Behavior:

Analytical Conceptual Behavior is observed as someone with good analytical skills with regard to planning and strategy development. It's important to note that this is not the same as intelligence. Candidates with strength in this area are good at learning from their own mistakes, good at gathering data and good at knowing which data is relevant to gather. They are able to quickly sift through the haystack of information and opportunities to find the needles of prospect receptivity. A person who lacks this skill may have low energy for gathering data, become easily overwhelmed and not take initiative to tackle strategic facets of planning. They may also get mired down in the details and not easily see the bigger picture in terms of solutions or opportunities.

Relationship Agility:

The next critical competency is *relationship agility*. This is observed as an ability to develop and manage relationships to drive demand for the firm's products and services. This competency can be evaluated by asking a series of questions. How many friends did the person have in high school and college? Do people tend to trust and gravitate toward the candidate? Is he or she someone who tends to help people out regularly? If the candidate has a small circle of close friends or is a somewhat private or introverted person, it is unlikely that he or she possess relationship agility.

> "Outside training influence is crucial. You can not have one source of water. You will drown."
>
> Gean Martin

The firms we interviewed found a high correlation between success in transition and the successor's ability to both maintain the relationships already in place and leverage those relationships to drive revenue. The successor must have a natural presence in front of clients.

Business Insight:

A third critical competency is that of business insight. Candidates should be able to articulate present industry trends and prepare cost-benefit analyses, and be able to correlate these trends to client implications and, therefore, sales or marketing opportunities. This trait is simpler to observe in candidates with industry experience. Assign those without experience a strategic industry research or analysis project, and then evaluate their work product.

Value Formation:

Another competency to look for is value formation. This is the ability to create demand based on the prospect scenario at hand. Where firms used to create results based on volume of activity, today they create results based on adaptability. This means the successors must be able to think on their feet during a first meeting or a sales presentation, and be able to improvise and adapt to the dynamics that are playing out in real time. In this area, successfully transitioned firms stressed the importance of finding a candidate who could demonstrate vision – someone who looks at the future and isn't solely focused on making an extra sale in the short term. The person should bring ideas, creativity and new ways of doing things to the table.

During interviews, firms repeatedly stressed the importance of evaluating work ethic. When push comes to shove, will the successor pay the price to get the job done? Owners recommended looking for someone who was hungry, motivated and eager to be successful.

Internship programs offer observation in advance of selection

Many firms shared a belief in testing the relationship before committing to a permanent succession plan. Internship programs were a common solution. College seniors work in the business during the school year and into the summer. This allows firms to observe their behavior in specific critical situations, and to gain insight about whether they possess the raw material described in this paper. When given a project, how much initiative do they take to find a solution? Strong candidates are then eligible for a full-time position once they graduate. Koss Olinger Financial Group in Gainesville, Florida used this method to hire two of its four current successors. They commented that the scenario was mutually beneficial. The firm needed people to do detail work and the interns felt they were a part of something, that they were making a contribution.

Some firms found it extremely valuable to hire a person in his or her 30s who had obtained a Masters in Business Administration, CPA or law degree. These candidates proved to be excellent at diagnosing problems and creating processes within firms that had operated primarily as sole practitioners for many decades. Even though these graduates lacked industry experience, their ability to create stronger processes catapulted the firms to reach new milestones of revenue growth.

Absolutely critical to making objective selection decisions is the use of external methods of evaluation in the form of both consultants and testing or profiling tools. In cases of potential family succession, there are enormous emotional stakes if this objective selection element is not utilized and taken seriously.

They suggested giving junior advisors some responsibility as an intern, and then evaluating how they handled it. They also stressed looking for successors who are amenable to keeping activity records with a willingness to be accountable for their sales results.

Successful transitions involved a junior advisor who had a keen interest in the acquisition of intellectual property, was a sponge for knowledge and was highly coachable. Several patriarchs with less successful successors expressed frustration that their sons or daughters were dragging their feet around obtaining designations.

While many financial services firms tend to look for junior advisors who have a natural market of affluent contacts, none of the successfully transitioned firms interviewed pursued this approach or found it to be factor in successor selection.

The training process: a job description for year one

Once you have identified a strong candidate, how should his or her first year in the firm be structured? Candidates should be college graduates, preferably with some relevant job skills; perhaps they majored in accounting or finance or have passed the CERTIFIED FINANCIAL PLANNER™ exam. During their first year, the focus should be on developing hard technical competencies. They should become immersed in the firm's business activities by sitting in on meetings, running product illustrations and doing financial research or analysis. They should create client presentations, with the senior advisor checking their work and providing context along with revisions. The combination of back-office responsibility and involvement in the sales process allows the successor to see how the components of the business come together to create revenue. They can observe the sales process through hands-on involvement and later move into client development.

Nearly all firms emphasized the value of obtaining external training along with hands-on experience. This training was obtained from industry meetings, seminars, broker/dealer or insurance company-sponsored training programs or meetings, local estate planning council meetings, peer study groups, sales training seminars and the curriculum one follows to earn various professional designations. Firms generally viewed training as falling into these categories: practice management, acquisition of technical knowledge, application of technical knowledge and sales training.

Internship ➛ Selection ➛ Setting Expectations

Setting expectations and measuring progress

It is imperative to co-develop and document expectations. The successee and the successor should build a written plan for the transfer of knowledge. This includes sales training, technical training and entrepreneurial mentorship. Next, they should create a structure for evaluating progress – either by hiring an external consultant to manage and coach or by scheduling weekly accountability meetings and 45-day

> "At any given time, we have someone who's learning. At the same time, we have someone who has gone through the training rotation process and is helping a junior person."
>
> Pramod Navani

checkpoints handled internally. Either way, there must be a formalized, time-based plan. The plan should include specific licenses and designations to be obtained and all other training components the candidate is expected to complete, along with dates for completion.

At the checkpoint meetings, it's important to reference the plan and evaluate and document progress or lack thereof. At these points, the successees must ask themselves: would I pay a technician to do this work? Is the successor, even at the early stages, providing value to the firm? Accuracy in work product should also be evaluated and discussed.

> "The difference between a 100K producer and a $1 Million producer is not that the latter is smarter. It's a willingness to go out there and try things; to do it some way without worrying whether it's the best way."
>
> Kirk Kline

Bill Koss of Koss Olinger said that accountability was a fair trade for allowing successors to operate under the firm's established name and use their proven internal resources. He suggested including additional facets in the written plan: reading a certain number of books each quarter, participating in community activities, spending a specified amount of time with family or on vacation, in addition to setting activity goals.

Mentorship is a key indicator of successful transitions. Owners must acknowledge the simple fact that when you have to sit down and explain everything you are doing and why to another and possibly inexperienced person, each piece takes significantly more time to complete. This on-the-job mentorship is the one piece that cannot be farmed out or replaced by industry conferences, external training programs and designation curriculum.

Another factor to evaluate is whether the successors are contributing to the retention or growth of the client base. Even if they are not selling in their first year, are their behaviors emulative of a business person with an eye on client service and cash flow? What processes or behaviors have they brought to the firm based on their natural modus operandi?

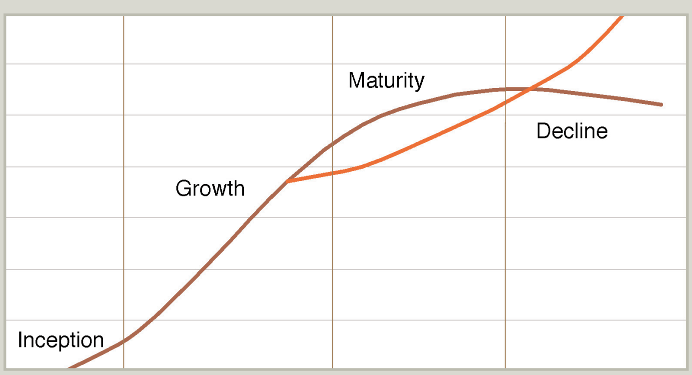
Transferring equity and relationships

A variety of solutions were applied to the transfer of equity. In family situations some fathers simply gifted the firm to their sons or daughters who had proven themselves working in the firm. In other situations, the departing owner received some sort of income and perks over time, such as: employment contracts with salary, health insurance and a car; insurance trails; or defined benefit or deferred compensation plans.

Some patriarchs carved off sections of their client bases and transferred

Practice Life Cycle

Where is your firm?



Brown - founding advisor
Orange - next generation advisor

them to the successor, requiring a revenue split on new business. The entire client base was eventually transferred in pieces over a number of years.

In another example, the sons working in the family firm had the business valuated prior to their father's death. At the time of death, the corporate assets – investments, real property and renewal streams – were distributed under the terms of the will, in a 50/50 split, to receive a step up in basis.

Many firms mentioned that their clients expressed relief in knowing that there was a plan to keep the firm intact after the owner retired. By bringing the junior advisor to all meetings, clients embraced the distinct succession process that was in progress. Clients saw that their own long-term commitment to the firm was being matched by the firm's long-term commitment to them. Owners commented that it is crucial to fully communicate the transition plan to clients. Clients should be aware of the background or training the person underwent before joining the firm, and what the plan is for transitioning the business over time.

One firm that has successfully transitioned to the second generation but lacks a third-generation plan put an innovative structure in place. If the owner dies or becomes disabled, the current management team remains in place for one year, with a significant exit bonus for staying. During this 12-month period, the management team and the owner's wife would have time to identify a successor together.

When asked why so many firms have trouble finding the right successor, one owner said that the older generation tends to hold onto the reins for too long. A young up-and-comer in the firm becomes frustrated and leaves. This owner expressed the importance of releasing some control and making progress toward the succession goal before good talent leaves the nest.

Additional challenges are a result of the changes in the industry. The demise of the agency system means that newcomers don't have an obvious solution for receiving technical or sales training. Meanwhile, the complexity of running a business with multiple vendors, services and product lines creates a steep learning curve for new advisors. The best of these bright young

The Four Phases of Successor Compensation

Phase I: Straight salary (amount should be similar to the market rate for a para planner or new business person)	Phase II: Straight salary (amount should be similar to the market rate for a para planner or new business person)	Phase III: Hybrid of salary and commission	Phase IV: Income is based on candidate's revenue generation and firm profitability (no salary)
Candidate studies for licenses and takes exams, obtains designations, attends training programs, becomes oriented to the firm's operational processes and helps to design cases, run illustrations or produce financial analyses.	*Candidate takes on more staff responsibilities and has a greater ability to manage case preparation without intensive supervision. As a result, there is a connection between his or her work product and cases closed.*	*Candidate begins to have client contact without rain maker present. Candidate may take on a role as a specialist in a particular area, perhaps a service area not previously offered by the firm. Therefore, he/she is bringing in revenue and opportunities not previously available to the firm.*	*Candidate has become an advisor and is able to represent the complete breadth of the firm's services and vision. He/she is bringing in new clients and is officially considered the successor, even if equity has not yet transferred. Clients understand that the candidate is the chosen successor.*

> "Don't make them starve to death. Pay them while they learn so they don't sell something you can't deliver. If they learn from the ground up, they only sell things we know we can build."
>
> Denny Zahrbock

candidates offer potential solutions to succession in private firms.

A variety of compensation solutions

There was consensus among the firms that compensation should begin as a salary, but only to carry candidates through the credentialing and licensing phase of their training. The compensation should become more risk-based as time goes on. This model assumes the candidate does not have an established client base or industry sales experience.

Here are some basic guidelines for the evolution of a compensation plan. The length of each phase of compensation varies based on the previous experience of the candidate.

Learning from a path well traveled

In cases where the successee and successor are family, it's important to recognize the two distinct relationships that are in play: the employer-employee relationship and the separate parent-child relationship. Engaging a business psychologist can decrease tension during transitions and increase the likelihood of success.

> "We both talk about what we're feeling and usually go with the person who feels stronger on the issue."
>
> David Malkin

Our interviews revealed some poignant observations about challenges with family dynamics. One patriarch reflected on the difference in work habits between his generation and his son's. Having worked sixty-hour weeks his entire career, he was frustrated that his son always walked out the door at 5:00 pm.

> "In any close relationship, there are always frustrations. While we have our disagreements, we always end the conversation with 'I love you'".
>
> Blair Jacobson

Other patriarchs said that anytime you bring family together in a work environment, each person inherently brings historic relationship dynamics to the table. Their goal was to ensure the business relationships didn't spoil positive family dynamics that had been in place for decades.

Another patriarch highlighted the importance of understanding the difference between personal relationships and professional relationships, and how one's behavior impacts the firm's ability to move forward. He suggests advisors remind themselves to treat a son or daughter with the same positive communication boundaries that you would a non-family employee or partner.

> "You must have trust in all directions: trust in each others' ability to produce revenue, trust that clients and staff will be treated right and trust that the financial arrangement is a fair deal."
>
> Bob Plybon

Critical elements to a successful transition

The importance of having a similar business philosophy was noted as a key factor of success. Effective and respectful communication was a repeating theme for firms that had successfully transitioned. There must be an open-door policy on conflicts. Some owners described this as being able to sit in a room and discuss issues until they are resolved, knowing that everyone won't walk out one hundred percent satisfied, and feeling alright about that.

Other owners expressed the importance of being a good listener and working together to determine whether the fit is there. Timing was considered crucial with several firms recommending at least 18 months to two years for a transfer of power to ensure clients and staff felt the transition was natural and gradual.

Giving up control was an issue during several transitions. The older generation said that it's important to internalize the fact that someone else will be making decisions that you have to comply with. This requires confidence, trust and a willingness to explicitly delegate authority. One patriarch reminds himself to embrace the theory that 80% is good enough, and that everything doesn't have to be done the way he had historically done it. He also expressed the importance of giving credit to the junior person for his or her ideas and contributions.

Older generations who had successfully transferred their firms recommended not waiting until an owner is tired or ready to retire. At that point, the succession process can't receive the full energy and attention required to achieve success. They suggested beginning the process three to five years prior to the point that a long-time rain maker may want to reduce his or her client obligations and perhaps begin playing a lot more golf.

Getting started

Similar to any substantial challenge in entrepreneurship, the most important factor is to begin the process now, giving the current owner ample time to create a succession vision and carefully select a strong successor. We hope you'll find four key takeaways from reading this paper.

1. Our findings indicate that firms who engaged an outside team of professionals to assist the process achieved better results more quickly.
2. It's imperative to use objective evaluation tools for interviewing and profiling candidates, both during selection and during their post-hire transition phase.
3. Once the candidate is in place, there must be written goals and expectations for both parties.
4. There must be clear validation checkpoints throughout the four phases of compensation. The candidate must prove he or she has earned the trust of the clients and the staff before taking the official reins.

> "We both wanted to see it succeed. We've been in business forty-five years and we both wanted to see it last another forty-five years. We're both working on the business and in the business to see this through. Nobody gives it to you for free and my son understands that."
>
> Blair Jacobson

Consider proven industry resources for guidance increating your plan. There are both institutions and coaches who specialize in guiding private firms through these important transitions, eliminating missteps and unnecessary expenditures of time and money along the way.

> "Ten years ago, we began to transition the reins of ValMark from my dad, who founded the company to me as the successor. From the very beginning, and still today, we have relied on the help of an industrial organizational psychologist to help us preempt and diffuse obstacles inherent to family transitions. Ultimately, our first goal is to maintain our family relationship. My dad is my best friend and my business partner."
>
> Larry Rybka

Contributor's note:

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