

Lack of Succession Plan Hurts RIAs Long-Term

by Ryan W. Neal in Intelligent Advisor

RIAs are too focused on operating a practice rather than building a sustainable business, according to a white paper from the Alliance for Registered Investment Advisors released at the Schwab IMPACT Conference in Boston on Wednesday.

John Furey, the paper's author and a founding member of aRIA, said not having a succession plan can damage the firm by causing employees to leave and preventing them from attracting next-gen talent.

"Business continuity is one of the biggest challenges facing our industry today," Furey said. "The unwillingness of many RIA owners to invest in both keeping top employees and recruiting new ones is deeply troubling. Most are not willing to risk short term economic outcomes for long-term benefit."

The paper encourages leaders to think about how it can attract top talent (especially among the next generation), how it can establish successful career paths, and why human capital is critical to a firm's success.

One suggestion aRIA suggests in the paper is to create a "farm team," borrowing a term and strategy employed by professional baseball, through diligent networking. This could help independent firms compete with the brand name, internal recruiting capabilities and vetting systems that larger financial institutions have, and help pull the trigger on an applicant at any moment if they fulfill a need for company.

Just as important is retaining current employees, and aRIA said each firm needs to have a clear business plan to show how the firm plans to grow. The white paper also suggested independent RIAs find innovative ways to compensate employees that value merit over experience in order to make each employee take an active role in a firm's growth.

Ron Carson, the founder and CEO of Carson Wealth and an aRIA board member said his firm employed some of these strategies successfully in 2011.

"We laid out a 10-year plan and provided opportunities and results based on a compensation system and opportunities for equity ownership," Carson said in a statement. "This mindset really helped the business transform and helped me solve for a variety of challenges we were facing – business continuity, succession, and maybe over reliance on my personal contribution."