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How top RIAs transition from business owner to business manager

By **John Furey** | January 8, 2014 - 9:34 am EST

The growth of the RIA channel can be attributed primarily to the entrepreneurial spirit of financial advisers who decided they wanted to take on the risk/reward scenario of being a business owner in addition to becoming a financial adviser. Many advisers find the RIA model attractive, given the fiduciary construct, the ability to have control, the client experience and the fee-based orientation of the channel.

I work with advisers who are seeking to build their firms aggressively and achieve the next level of growth, or solve a fundamental challenge they are facing in managing their business. Over the years, I have met hundreds of great advisers, entrepreneurs, and leaders within advisory firms. However, although many advisers may be business owners in addition to being financial advisers, few are outstanding business managers.

So how is being a business owner and a great business manager within the construct of the wealth management industry different?

The reality is that being a great business manager and being a great entrepreneur/owner can be mutually exclusive. One key distinction is that many large RIAs make a strategic decision to hire professional

business managers, usually chief operating officers, sales managers, or chief information officers, if the firm begins to outgrow the capabilities of the business owner who started it. This happens in other industries as well — think venture capital firm that seeks to install a professional management team to replace a founder, in exchange for growth capital.

One might think that being a successful business manager is the only way to become a successful RIA. I don't believe that is necessarily true, but it may lead to significant benefits including:

- The ability to hire and retain top talent.
- Faster rates of growth.
- Larger client bases.
- More options in terms of business continuity and sale planning.

What I know is that firms that aspired to and built sustainable businesses have found a way to install effective business management processes and practices within their firms. These firms are usually \$1 billion asset management firms or now even \$10 billion in AUM. Many of these firms have aspirations to have regional and national footprints while trying to build capabilities that benefit investors and advisers that choose to affiliate with them.

Common characteristics of professional business managers

1. They are committed to strategic planning. Long term-goals are quantifiable in nature and the team has a process to monitor and hold people/teams accountable to achieving goals.
2. They have a well-defined corporate governance structure. This could include a board of directors, a detailed operating

agreement/articles of incorporation, and a path to ownership for emerging professionals.

3. Decision-making is distributed based on knowledge and expertise versus consolidated with the owners of the firms. Professional managers take stock in the unique strengths they possess and seek to hire others that can fill in gaps.

4. They have developed a comprehensive and firmwide compensation plan that aligns employee pay with business goals and results.

5. They seek to create and nurture functional capabilities within a firm. Most business managers will seek to develop scale and capability through functional focus. This includes departments such as investments, planning, client service, operations, estate planning and tax.

6. They articulate a value proposition to a specific market demographic.

7. They create a path to ownership for the next generation of professionals. All business managers, of course, have succession plans and continuity plans.

8. They have a systematic and defined business development capability. Usually, business managers have built infrastructure and processes that the entity follows and their firms' growth rates, without market growth, are north of 10% and usually 15%.

Are you an effective business owner? Business manager? Both? Or maybe you are content with simply being a great adviser. Understanding where you and your firm have strength and where you may need assistance may be key to developing your next iteration of growth.

John Furey is the founder and the principal of Advisor Growth Strategies, a leading consulting firm serving the wealth management industry. Mr. Furey conceptualized and leads the Alliance for RIAs, an independent think tank of six leading independent advisory firms.