How RIA Owners Tick Off Their Teams

By Steve Garmhausen for Barron's Advisor

THE INDEPENDENT ADVISORY FIRM'S SUCCESSION PROCESS was working out great: A next-generation advisor had become the majority shareholder and titular head of the company as planned. There was just one problem—the founder continued working at the firm, actively making decisions, offering guidance when approached by staffers, and, in the process, undermining the new owner.

"The best practice would be for the founder to say, 'That's a great question, let's go discuss it with [the new owner]," says Dave DeVoe, CEO of consultancy DeVoe & Co., in San Francisco.

A founder's failure to take transition seriously is among the most serious frustrations advisor teams have with their firm's leaders. Other common gripes, according to consultants to independent firms, range from understaffing to micromanaging to failing to create career paths. It's no surprise that complaints about management gaps crop up frequently at independent firms, says John Furey, head of Advisor Growth Strategies, in Phoenix.

"Most founders weren't really trained to be a manager or a leader," he says. "It should come as no surprise that when they grow and bring on a team they don't know what to do."

Unaddressed, simmering issues can stunt a firm's growth, hurt its enterprise value, and perhaps even ensure that it dies with its founder. Smart leaders, on the other hand, use criticism to spark improvements, ultimately creating the conditions for stronger growth, happier teams, and multigenerational potential.

Several years ago, after listening to employees complain that career paths at his firm weren't clearly delineated, Creative Planning founder Peter Mallouk had senior executives build career maps. The business launched a program to pay for the credentialing required to move upward. And leaders were assigned to give each of the firm's specialty groups day-to-day guidance, education, and an outlet for communication.

Mallouk, a Barron's Hall of Fame advisor whose Kansas City, Mo., firm manages $48 billion of assets, says he welcomes very direct feedback from his team. "I used to be far more sensitive to it," he says, "but quickly learned that, one, I'd better get used to it if I want candid feedback and, two, it makes Creative Planning better—so I remind myself I welcome it."

Listening to team members' frustrations and responding to them sets the leaders of top firms like Creative Planning apart. Too often, says Ray Sclafani, the CEO of consultancy ClientWise, headquartered near New York City, team members who share concerns with the boss receive little beyond lip service. "I think many speak up, but I'm not sure they feel heard," he says.

What follows are some of the biggest areas of frustration, shared by veteran consultants who've heard them directly from members of teams they consult with.

The firm lacks a vision and a plan to achieve it. Furey often hears from team members that, while they feel a responsibility to take good care of clients, they're not sure where the firm is going, beyond a vague plan to grow. There isn't a vision, much less a plan to put it into action. "Firms that grow at a high rate are great at execution of a clear plan where team members have bought in and there's accountability," says Furey. It stands to reason that the opposite is true as well.

There's no career path. Young analysts and advisors are typically thrilled to be hired, but if the firm lacks an advancement mechanism, they'll soon realize it. "We often hear, 'I don't make enough money. I don't see a future. I would love to be an owner one day, but I don't know how to do it,'" says Furey.

Too many firms have ad hoc performance management approaches. Missing are clear job responsibilities, accountability metrics, a feedback system, and incentive compensation linked to performance, Furey says.

Indeed, a recent survey from DeVoe & Co. paints a grim picture when it comes to the opportunity for advancement at independent RIA firms. Nearly half are not providing clear career paths. Sixty-five percent don't provide adequate performance reviews. And 54% lack clear incentive compensation plans.

All of that may help to explain the survey's headline finding: 57% of RIA firm leaders believe that the next generation is not ready to take over.

Career pathing isn't just about succession. A clear prospect of career advancement, along with intellectual stimulation, can lead team members to be satisfied with a bit less compensation, says Furey. Anecdotally, he adds, firms that excel at creating career paths for their people tend to be more profitable.

The boss micromanages. Founders of growing firms often struggle to transition from doing the work to leading the work, Sclafani says. "Those that have made the transition don't have issues," he says. "The advisor who is still in the weeds, hiring support staff, managing clients, grasping day-to-day operations, has a problem."

The consequence in such an environment could be a loss of loyalty, followed by a loss of bodies, Sclafani says. "I've seen advisors literally have 100% turnover of staff," he says. "I've seen an entire staff of nine walk out. "'You know what,' they said, 'we give up.'"

Capriciousness is another common problem. "A young advisor told me that he had rebuilt a financial plan for a client working with the founder three times," says Sclafani. "Why doesn't he stick to the process we agreed to?" the advisor asked Sclafani.

The founder won't share the wealth. One of owners' most disruptive long-term mistakes is failing to share ownership with next-generation talent, Sclafani says. "You're paying me great, but I'm busting my tail to drive equity in the firm that will only become more expensive over time," he says, offering a typical reaction from a next-generation advisor.

There's no succession plan. Equity is the linchpin of succession planning, of course. And a lack of succession planning is "a huge gap in the industry," Sclafani says. "Firms get stuck, and therefore the large majority of lifestyle practices never make it beyond the founder."

DeVoe and his team worked with one firm whose founders were taking too long to create a succession plan and migrate ownership, so the younger advisors just left.

A related problem arises when there's a succession plan in place but the boss won't leave. A founder might create a plan that motivates the next generation but then, after seeing the resulting growth spike, rethink his or her timeframe for leaving, Sclafani says.

There isn't enough staff. One way to boost profits is by holding down the cost side of the equation, but too often that means overworking support staff. "'We can't deliver our promised value proposition because there's too much on our plates,'" Sclafani says. "That's the No. 1 complaint. The owner wants to grow, but growth is not defined and doesn't extend to people and process, just revenue and profits."

When that owner withholds praise and recognition for a job well done, pointing instead to the next task or project, it only further alienates the employees, Sclafani says.

A founder who is a poor manager can be in for a surprise when attempting to sell his or her business. In one case, relates DeVoe, the founder decided to sell and had an investment banker tell the staff how it was going to happen, including tiny bonuses for signing non-compete and non-solicitation agreements. "One employee assessed her options and decided to leave," DeVoe says. "Then, a principal left with her. This created a very bad situation for the transaction."

The most successful leaders hire the best people they can find and then trust them. And that trust itself can be a form of compensation. Just after the dot-come bust of 2000, Steve Cassaday, head of $3.2 billion-asset Cassaday & Co., in McLean, Va., was bullish on emerging markets and non-U.S. stocks. During an investment policy committee meeting, he recommended a large overweight to those areas. But a new employee, less than a year out of college, pointed to data showing that the firm's U.S. holdings already did 65% of their business with non-U.S. customers. Cassaday, another Barron's Hall of Famer, backed off his overweight call.

"He was right and I was wrong—and a little embarrassed—but I praised him for speaking up," says Cassaday.

Cassaday encourages team members to speak up about their personal and professional needs as well. "I want to be challenged by people who know their role and what they need … to excel at what they do," he says. "If I can't make a cogent case for my position, then changes need to happen."