

Age No Impediment to a Successful Succession Plan

How one RIA firm owner built trust and a new generation of leadership



Age is no obstacle with an ambitious, committed successor. (Illustration: Science Photo Library/Corbis)

A 32-year age gap exists between the founder and outgoing CEO of an RIA firm and his successor. The story of this firm's succession plan began when the firm (with \$1.4 billion in AUM) received an acquisition offer by a larger firm in another city. The offer was rejected, but it served as a catalyst for an honest discussion of "where do we go from here?"

When most firms work on a succession plan, they usually look to the next generation, not to someone two generations away. Yet this is exactly what happened. The firm's founder and principals had frequently discussed their future and refined their five-year plan. The next year, though, it remained a five-year plan, not a four-year plan.

The acquisition offer was lucrative. All the firm's principals would have profited nicely, especially the founder, Stan (not his real name). It was when they declined the offer that the true five-year plans were discussed in concrete ways. The acquisition would have given them a plan for their future, but now that the acquisition was moot, what was their future?

It was at this point that the notable personalities that make up this firm began doing notable things. At the top of the list was Stan. He agreed to a buyout offer from his principals at a much lower multiple than he could have received had he decided to sell his company. Stan believed that to best serve the needs of the firm's clients and to best care for his employees it was necessary to remain independent, even if it meant many fewer dollars in the sale. The principals were humbled by Stan's decision but not surprised—Stan's focus was always on the well-being of the client and his employees. The principals were the same way because Stan had personally recruited each one of them to the firm, and he only recruited people who shared his client-centric outlook.

Next on the list of notable personalities was Stan's successor. He is 32 years Stan's junior, but this age gap was no barrier to earning Stan's trust. He played a leading role in calculating the valuations in the due diligence process they had all just gone through. But this young man was not an investment advisor. He had no clients, though he was familiar to everyone through his work on the firm's investment committee. As the new president and CEO, he would become the firm's first professional manager. Stated another way, he would become an overhead cost that needed to be paid for by the revenue-producing members of the firm; this required getting their buy-in.

So he approached each of the principals and sought their blessing. To each he laid out his plan for the firm's future and showed them hard deadlines to make the needed changes and build the needed systems to expand both the capability and capacity of the firm. As with Stan, he had built credibility with each of the principals, and they agreed to pay for his ambitious goals knowing his efforts would position the firm for a more lucrative future for all.

Additionally, the principals worked with the new CEO and Stan to create some new operating procedures to make sure he'd be successful in his new role.

- A new executive committee was formed that did not include Stan. Their fear was that they'd defer to him on important decisions. Stan understood the need for this new structure and agreed. Today he gets quarterly updates from the executive committee.
- He changed the compensation structure.
- He changed the employee review process and began recruiting new employees.
- He changed the way the firm communicates with clients, which included an ongoing and thorough revamp of the firm's website.
- He increased senior level communication and expectations surrounding client profitability and other new management metrics.

As for Stan, he remains very relevant in the firm. He continues his community-facing role, which is supported and encouraged by the principals. Additionally, he continues to serve his favorite clients.

It took a catalyst like an acquisition offer to shake this firm out of its comfort in the status quo and begin some meaningful future-focused change.