Angie Herbers on Creating Great Employees and Solving the Fee Issue

by Carly Schulaka

WHO: Angie Herbers

WHAT: Founder of Angie Herbers Inc., a research, consulting, and coaching firm for independent advisory firms and other small businesses.

WHAT'S ON HER MIND: "What I know for sure about advisory firms versus every other business out there is advisers get paid on a fee structure that they absolutely cannot control. Think about it. A doctor gets paid because he gives you advice. As an adviser, you give advice, but you're not getting paid for that advice. You're getting paid for what the market does…."

PODCAST: Check out our podcast with Herbers at www.FPAnet.org/Journal/Home/PodcastPage.

Angie Herbers takes everything you know about managing employees and running a successful financial advisory firm and turns it on its head; and she does it with conviction. She is the founder of Angie Herbers Inc., where she serves as senior consultant. In this role she has helped more than 600 financial advisory firms develop effective human capital programs, increase employee satisfaction, improve organizational structures, and create viable succession plans.

Much of her consulting work is grounded in the findings of her firm's five-year clinical research project, which sought to discover why some advisory firms have great employees creating great businesses, while others have mediocre employees creating the same. The results of that research are what Herbers calls the P4 principles of: preparation (creating a work environment that prepares employees and firm owners for success), pay (compensation and incentive programs that connect employees to something greater than themselves), perks (benefits that provide motivation and work-life balance), and productivity (technology designed to help employees succeed). Herbers's research shows that owners of P4 firms—those that implement all four elements into their employee programs—have greater growth in income, more time off, and happier employees. And although she spends much of her time consulting planning firms on how and why to adopt these four principles, she admits they are not overly complicated, particularly difficult, or expensive to integrate. It may, however, take a leap of faith on the owner's behalf.

Her intent in her research and consulting work is clear: to find the *right* answers to advisers' many practice management questions based on real trends and a body of research. In doing so, she's making many advisers think differently about how they view their employees, how they run their businesses, and the very culture their firms create. And along the way, she's breaking the rules.

"The vast majority of firm owners believe we have to have rules," she says. "If we don't have rules, then people are going to do things we don't want them to do. Well, the reality is, rules put more restrictions on you than you really need. Rules actually decrease productivity instead of increase it. People don't break the rules if there are no rules to break."

The *Journal* recently spoke with Herbers about her current and future research, as well as staffing and fee strategies for firms looking to grow and succeed.

1. *You have conducted extensive research on what makes financial*

advisory firms successful. Have you been surprised by any of your research results?

I'm surprised at all of our research results. What I've learned is that consultants are actually terrible at tracking trends and figuring out what's going to happen in the industry. In our research, the results have not been at all what I predicted. I'll use P4 as an example. The whole reason why we started the P4 research around six years ago was because we saw that there was going to be a supply and demand issue with talent in the industry. We believed that the research results [would show] we need to be grooming talent coming out of CFP programs to be managers. P4 did just the opposite. It said we don't need managers. What we need to do is teach employees to be great employees, and if we did that, we could eliminate the management function.

2. *Speaking of the P4 principles of preparation, pay, perks, and productivity, if an advisory firm looking to grow and be successful were to commit to only one of those principles, which one should it be and why?*

Our research showed that if you just have one of the P4 principles integrated in your firm, you won't even come close to getting the results of all four, so you can't just implement one. I'll give you a good example.

The majority of advisory firms contact our company because they want to make sure they're paying their employees fairly, and they want an incentive structure so they can increase productivity and increase growth in the company.

Five years ago I would have said, "Sure, we'll do that. It will increase your productivity." The research said different. You can implement a comp program, or you can implement perks, or you can implement certain productivity tools, but you have to implement them all.

Now, if clients contact us and say they just want a comp structure, we'll say to them, "We can build you a comp structure, but you're not going to get the results." We tell them to focus on P4 for a year, focusing on each one of those Ps for a quarter. At the end of that year, then they can implement a comp structure and it will work, but [many advisory firms] don't want to hear that it takes a year to do it. And a year is a minimum.

3. *Your research has found that those advisory firms that employ all of the P4 principles (and have better growth in owner's income, higher achievement of goals, and happier employees, among other measures of success) often pay salaries that are below market ranges. Don't good employees want to be paid well?*

I would say they want to be paid fairly. I have learned in all this research that if an employee comes to you and says, "I don't think I'm getting paid enough," they're really not saying anything about pay. They're saying that they're not happy, or they don't feel valued, or something is going on in their professional life or in their personal life, or they're questioning something and they're saying to you, "In order for me to stay here a little bit longer so that I don't have to solve whatever, I want you to pay me more."

When we look at the salaries that P4 firms are paying, they are more than likely paying a below-market base salary, but the total compensation—including the incentive program that's based on revenue—is an average pay, or in some cases, an above-average pay. It's not that we're trying to give them less than what they deserve. We're giving them exactly what they deserve. We're just putting more of the emphasis on the incentive program.

The thing is, in P4 firms, employees don't work there for money. They work there because they love the firm. They love what it stands for. They love the clients. I would venture to guess that nearly every employee in P4 firms would work for free if they could.

4. *Flex time, family leave, open vacation, and provided lunch are a few examples of "lifestyle" perks. How important are such perks to staff retention? And how important is staff retention to the success of the firm?*

All the P4 firms had lifestyle perks. The vast majority of non-P4 firms didn't have any lifestyle perks. It's hard to say what the correlation is between [lifestyle perks] and retention because, remember, the lifestyle perks are one of four components you have to have.

Lifestyle perks attract people to the company. People want to work for companies that want their employees to have a balance. The minute you require an employee's professional life and personal life to compete, you've lost that employee because the personal life is always going to win.

It was pretty evident that a lot of the success that P4 firms had in growth and owner's income and owner's time had a lot to do with retention. They kept employees and when you keep employees, you don't have to retrain all the time, you don't have to take a step backwards to do recruitment, or find a replacement, or put the burden on the other staff members when an employee leaves. It's systematic growth versus chaotic growth. P4 firms had systematic growth—year, over year, over year they were growing. Non-P4 firms had chaotic growth. One year they grew, the other year they didn't, or even fell behind. The interesting thing about that trend in the non-P4 firms was the years they grew they had stable workforces. I think staff retention is very important.

5. *What's your advice to a firm owner who may be interested in implementing lifestyle perks effectively?*

You have to trust your workforce. You have to get over everything that traditional management has told you. Traditional management tells you that the more you

manage, the better your employees are. Well, I don't think that's true anymore.

There are hundreds of lifestyle perks out there. What we learned in the research is that you only have to have six, and in order to implement them, all you have to do is ask your employees what six they think they need. We also know from the research that oftentimes employees don't even use the lifestyle perks. It's just important that they're there.

It really just goes back to control. If employees feel like they have control over their lives and what they can do, then they're going to work naturally within what's comfortable for them. But if you put rules on it, oftentimes the rules are broken and they'll push you all the way to the limit.

6. *Your research has shown that better hiring doesn't necessarily lead to better employees; rather, successful advisory firms often take mediocre employees and make them great. How can firms create great employees?*

This is probably one of the [research] areas that shocked me the most. Everybody says you should put the best people on the bus and that's the way the bus goes forward. P4 said just the opposite. Take anybody—anyone out there who has desire, and professionalism, and a work ethic—and train them and make them great. Do not satisfy the idea that finding a star employee is going to solve your problems. It's not. It's probably going to create more problems.

Creating great employees is what you have to do. It's the training program, which is part of preparation. It's implementing pay that's fair and reasonable and attached to the overall goal. It's having lifestyle benefits, and it's having technology that says to your employees, "We value what you do, so we want you to have the best [technology] to do it."

7. *You have written that an advisory firm has just six weeks to prove to new hires that it is worthy of a long-term commitment. What should firms do in those first six weeks to increase the chances of creating those long-term relationships?*

This is the newest piece of our research. When we studied several new hires, we realized they were making a decision sometime in that first six weeks as to whether or not they were staying with that company long term, and it had everything to do with what we trained them on in the first six weeks. Let's say their job was to be a junior adviser. If on the first day the owner, manager, or other employee started dumping tasks on them without that junior adviser getting an overall perspective on the company, instantly they were making a decision to not stay [long term].

If instead we focused those first six weeks on training them on how the firm works—the overall objective of the firm, the clients served, the technology used—just giving them a very good overview [as] opposed to giving them actual work to do, the perception was completely different. They were making a choice almost instantly that they loved the firm and wanted to stay with the firm. After those first six weeks we start teaching them how to do their actual job.

8. *With the vast number of baby boomer advisers looking to retire in 5 to 10 years, succession planning is a major topic for the profession. If someone is looking to retire in five years and has no succession plan in place, what would be the first step you would recommend they do to start them down the right path?*

If you're looking to retire in five years and you have no succession plan in place, you're way behind. I don't care if you're 35 years old or 65 years old. You need to be thinking about succession planning.

For the person who's five years out and has no succession plan, the first thing you need to do is analyze why you don't have a plan in place. For the vast majority of advisers [in this situation], there's a reason why there's no plan. It's either they don't want to retire but think they need a succession plan, or they've had a lifestyle business and now they're realizing the business has value and they want to capitalize on the value, or they're realizing that they have no retirement except for in their business and now they need to capitalize on the value to fund their own retirement.

The second thing you have to do is start looking at all the options—internal succession, merger, and acquisition. A lot of people make the mistake of trying to do all three. Well, if you're doing all three, you're not going to be able to do one great. If you've only got five years, you're going to have a hell of a hard time trying to do an internal succession because you need a minimum, in my opinion, of 10 to 12 years. Your options are pretty limited here. It's merger/acquisition or, frankly, if you don't want to go down that route, then you just kind of fade away, which is okay, too.

9. *Over the past decade or so, many firms have adopted combined fee structures (flat annual planning fees joined with AUM fees) in an attempt to smooth out revenues. You recently cautioned advisers about doing this. Why?*

This is a piece of research we are focused on very extensively right now. What I know for sure about advisory firms versus every other business out there is advisers get paid on a fee structure that they absolutely cannot control. Think about it. A doctor gets paid because he gives you advice. As an adviser, you give advice, but you're not getting paid for that advice. You're getting paid for what the market does, and the market you can't control, but there is a certain psychology in consumers that says that's what the adviser is there to

do. There's a direct correlation between the financial planning that you do and the investment advice that you give, and consumers believe that the financial planning reduces the risk in investment management. That's why they want those fees attached to the investment management, which is something an adviser cannot control.

What happens if you have a combined fee structure—a flat fee joined with AUM—in a down market? Clients see their account decrease in value, and they devalue the financial planning. When that happens, they say, "Why am I paying this flat fee for financial planning?" That's why I caution against a combined fee structure.

Fees and how fees are charged in this industry is connected completely with the psychology of the consumer, and it has nothing to do with value, unfortunately. That's what we're trying to figure out in the research.

10. *Where do you see the financial advisory profession in 10 years or in 20 years?*

A lot of people ask me to predict this and let me just tell you, what I have learned through extensive research is we have no idea. When I look back on what people have predicted about the industry, the vast majority of the time they're wrong.

I don't like to predict things, but here's what I would like to see: I would like to see that we have solved the fee issue, that for whatever that solution may be, consumers see the value in true financial planning and they don't link it with investment management.

I would love to see us change the way firms in this industry work with, handle, and groom and grow their employees.

I would love to see other companies and organizations fund more research in this industry—really good, evidence-based, clinical research; not just survey research. Survey research is useful, but let's get deeper into this and figure out the solutions.

I started in this industry very young and have grown up in this industry. I look at how far we've come with next-generation talent. Years ago I wrote a cover article for [*Investment Advisor*] about the disconnect between owner/adviser and the next generation. I feel like we're really close, if not already there, to bridging that gap, but now we need the training programs. We're not going to have enough talent to grow as fast as this industry can grow. The only way we're going to be able to get that talent is to have the training programs. That, right now, in my heart, is my mission—to develop that training program and make it a standard.

Carly Schulaka is a contributing editor for the Journal of Financial Planning *and managing editor of* Practice Management Solutions *magazine. (carly.schulaka@FPAnet.org)*

Announcing the
Journal of Financial Planning's
Montgomery | Warschauer Award

The long-standing tradition of the *Journal of Financial Planning* to provide groundbreaking research for practitioner use in real-life planning with clients began three decades ago with the foresight of Henry Montgomery and Tom Warschauer. The late Montgomery, a CFP® certificant and decorated WWII Army veteran, is largely credited with creation of what is now known as the *Journal of Financial Planning*. Warschauer, Ph.D., CFP®, professor of finance at San Diego State University, served as the *Journal's* first academic editor and continues to champion the effort to align scholarly research and practitioner needs to foster the greatest collaboration of talents in the field.

The Montgomery-Warschauer award will be chosen annually by the *Journal* to honor the paper that provided the most outstanding contribution to the betterment of the profession in the preceding year.

The *Journal of Financial Planning* has named Wade D. Pfau, Ph.D., CFA, winner of the publication's 2011 Montgomery-Warschauer Award. Pfau has published multiple articles in the *Journal*, and in the May 2011 issue he contributed the frequently cited "Safe Savings Rates: A New Approach to Retirement Planning"—the paper chosen for this award.

Pfau will receive his award at FPA Experience 2012. He is attending the conference as the *Journal's* guest, and FPA will donate $1,000 in his name to the scholarship fund or charity of his choice.

In conjunction with the Montgomery-Warschauer Award, we hereby announce a Call for Papers. You'll find writing and submission guidelines at www.FPAnet.org/Journal/Contribute/WritingGuidelines/Articles.

As the impact of Wade Pfau's work demonstrates, there is no better venue through which to influence the way financial planning is practiced and financial planning clients are served than the *Journal of Financial Planning*.