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EXECUTIVE SEARCH FOR FINANCIAL SERVICES

CEO SUCCESSION PLANS

COVID-19's Impact On
RIAs & Multi-Family Offices

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OVERVIEW

The pandemic has served as a wake-up call for CEOs and Founders of RIAs and Multi-Family Offices.

Succession planning is often viewed as a lengthy and administrative chore, but it has recently risen to the top of the agenda for many CEOs.

In this perspective, we reflect on why now is the right time to address succession planning. We also dispel assumptions about the succession planning process, share steps for taking action, and discuss why M&A and succession planning are not mutually exclusive.



WHY SHOULD CEOS THINK ABOUT THEIR SUCCESSION PLANS TODAY?

The pandemic has moved three peripheral issues to center stage.

VULNERABILITY

Baby Boomer leaders who founded their RIAs and MFOs have been forced to acknowledge that their age is a factor when considering their firm's long-term sustainability and success. This is especially true because COVID-19 impacts people over 60 disproportionately. These concerns have prompted CEOs to start seriously considering a Chief Operating Officer or second-in-command to help run their firm.

VOLATILITY & INEFFICIENCIES

The market correction caused by the pandemic exposed underlying structural weaknesses in many firms. During a decade-long bull market, these liabilities were on the backburner. Furthermore, COVID-19 has swamped many CEOs with operational issues they should not, and prefer not, to handle. Playing catch up in today's volatile environment requires a greater commitment in time and resources than some CEOs are willing or able to handle.

TRANSPARENCY

Current clients and employees, prospective employees and clients, and Boards are asking CEOs difficult questions about their future during this time of uncertainty. Many CEOs do not have the answers.

RIA STATISTICS



Source: 2019 [Franklin Templeton](#) Study

SUCCESSION PLANS ARE FULLY CUSTOMIZABLE TO EACH CEO'S DESIRES OR NEEDS

Succession planning is not a one-size-fits all endeavor. There are a number of ways CEOs can address their succession plans. For example, a CEO/Founder can continue contributing to the business, but step aside from day-to-day management. If the CEO wants to remain in the leadership chair while grooming a hand-picked successor over a few years until retirement, that is another option. A CEO can also hire a Chief Operating Officer to build out the internal infrastructure of the firm or scale the business. These are just a few examples of what is possible.



REFLECTION IS CRITICAL

The first step of the succession planning process is for the CEO to reflect on the past and future.

- Think through your firm's strengths and weaknesses
- Determine how you contribute the most value and what you would prefer to hand off
- Identify tasks that you do not do well or do not want to invest your time in
- Create a vision for the firm five years out in terms of AUM, geographic locations, employee size
- Solidify your own goals, whether personally or professionally

INTERNAL VS. EXTERNAL CANDIDATES

Deciding whether to promote an internal candidate or look externally for talent is the next step.

INTERNAL CANDIDATES

It is critical to take a staff inventory to determine if there are any potential succession candidates on your leadership team. If so, perhaps you already know who you'd like to move into your seat. If this is the case, it is imperative that both you and the internal candidate are on the same page and timeline. If there are several candidates worthy of consideration, you may want to conduct leadership assessments, including psychometric testing, to determine their long-term suitability for the C-Suite.

EXTERNAL CANDIDATES

If there is no viable option in your firm, you will need to look externally for leadership talent. A leader from the outside can be a catalyst for your firm's future growth. The challenges experienced by many firms when trying to attract the right successor is typically due to a lack of process. A search led by a professional, whether an executive search firm or Human Resources executive, will focus on the alignment across the firm's culture, leadership styles, performance metrics, investment philosophy, corporate values, and vision. All of these considerations will ultimately increase the likelihood of identifying a long-term fit.

SUCCESSION PLANNING AND M&A

COVID-19 has heightened the sense of urgency among CEOs who do not yet have a succession plan. Whether considering a sale, a merger, or an investment by a private equity firm, the lack of a succession plan will negatively impact the valuation of your firm. Acquirers often view a firm's weaknesses as an opportunity for discount on the sale. "Sellers typically wait too long to do succession planning, and if you do, it is difficult to get a full valuation for an otherwise attractive firm that you've built," said Aaron Dorr, Principal of the Investment Banking Group at Sandler O'Neill + Partners, who was quoted in the [Franklin Templeton](#) study.

A more feasible option may be to first professionalize your leadership team

That means hiring complementary and competent executives to maximize your firm's valuation in advance of M&A. Once a firm has a stronger management team and better processes and infrastructure in place, CEOs may have greater insight about whether a sale or acquisition is the optimal path forward. Additionally, the cumulative effect of a deeper talent bench and organizational discipline is potentially higher valuations if you do sell. Investing in professional leadership is essential to building value, irrespective of the ultimate goal.



NEXT STEPS

The COVID-19 pandemic has intensified the focus of long-term sustainability of independent wealth management firms. Now is the right time to consider a succession plan. Failing to execute a well-designed plan can be a costly mistake that can jeopardize a firm's future growth and the CEO's legacy. As important, a carefully orchestrated succession plan can professionalize a firm and maximize its value upon a sale.



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The Perfect Fit

[Kathy Freeman Company](#) is a national, retained, executive search firm. For more than two decades, the company has specialized in C-Suite and Senior Leadership searches, as well as Succession Planning for the wealth management industry.