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FOR IMMEDIATE RELEASE

FA Insight's Annual Advisory Firm Study Highlights Industry's Critical Need to Progress People

Tacoma, WA (Sept. 1, 2011)—Better times have tenuously returned for independent advisory firms. The tepid recovery, however, is illuminating new challenges for firm owners to effectively manage people, a firm's most critical ingredient for sustaining performance over time. Study findings released today by FA Insight quantify just how extensive the people challenges are for advisory firms.

Nearly one in five primary owners is expected to retire within seven years, but the source for the next generation of firm leaders is unclear. The addition of new owners is not keeping pace with the departure rate of existing owners or the acquisition rate of new employees. The result is a shrinking proportion of owners to firm personnel.

The Lead Advisor is a firm's most senior advisory position; those filling the role typically have two decades worth of experience and 44% are primary firm owners. The Associate Advisor, the next rung down on the traditional advisory firm career path, ideally represents the Lead Advisor of tomorrow. Alarming, across the industry roughly just two Associate Advisors exist to succeed every three Lead Advisors.

Firms must do more to ensure that a new generation of advisors is in place in order to better build, sustain, and transfer firm value over the coming years. At present, less than one-quarter of firms offer structured career paths for all roles within the firm; a larger share of firms, 30%, have no career paths at all. Only 38% of firms have documented position descriptions for firm personnel and just 14% maintain a plan for how their organizational structure will need to change as the firm grows.

These deficiencies are key contributors toward a woeful lack of succession preparedness. Two-thirds of firms do not have an adequate plan in place for how equity, management responsibility, and client relationships will ultimately be transitioned to a new generation; more than half of these firms indicate having no succession plan at all.

With *The 2011 FA Insight Study of Advisory Firms: People and Pay*, FA Insight endeavors to support advisory firms in confronting these challenges. "A primary intention of the 2011 *People and Pay* study is to assist firms to not only attract and retain the right individuals but to map a path that progresses people toward ownership and management responsibility," explains Dan Inveen, the Director of Research at FA Insight and the study's co-author. *People and Pay* is the research and consulting firm's third annual industry study and the second study with a special focus on human capital.

Unless the development of personnel can be strengthened, the scarcity of high-quality talent will continue, firm growth will be restrained, and succession options for owners will be limited. The good news, as uncovered in *People and Pay*, is that there are practical solutions that can be applied to ensure a firm gets the most from its personnel. These include:

- Forming a clearly defined organizational structure that includes a framework for the firm to advance team members along career paths and a roadmap for which roles to add as financial and operating milestones are reached.
- Maintaining proactive development programs for personnel. Study results reveal that firms best prepared for succession particularly shine in their ability to advance people. The most effective programs include individual development plans combined with routine performance evaluations.
- Emphasizing pay structure over pay level. While little discernible difference exists in the compensation levels of personnel at Standout firms versus others, Standouts are more prone to deploy performance-based incentive pay programs across nearly every position type.
- Transitioning equity early and broadly as a means for motivating personnel, retaining quality employees, and enhancing liquidity. A clear correlation exists between Standout firms and broader distribution of ownership.
- Admitting new primary owners based on a formal evaluation process that emphasizes character, values, and leadership and then facilitating share buy-in with financing assistance.

According to Eliza De Pardo, FA Insight's Director of Consulting and co-author of the study, "We firmly believe that transitioning equity and control from founding owners to a new generation will prove to be the single most challenging issue for advisory firms over the coming decade. In addition to providing a strong foundation for succession preparedness, the 2011 *People and Pay* study reinforces that good people practices are an important factor for controlling costs, improving efficiency, preserving culture, and building sustainable value."

As with FA Insight's prior annual studies, *People and Pay* offers consultative prescriptions for success based on current industry trends, in addition to supporting advisory firm owners with a host of critical data for benchmarking their firms against peers. The study offers detailed compensation data for 31 positions common to advisory firms as well as a wide variety of financial and operating performance benchmarks.

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About the Study

The 2011 FA Insight Study of Advisory Firms: People and Pay survey, which was administered exclusively online, fielded between February 7 and April 18, 2011, with participation promoted in collaboration with media partner *Investment Advisor* magazine. Participating firms invested 45–60 minutes of their time to complete the survey. In addition to reporting compensation detail for all personnel, firms were required to provide a thorough financial statement and answer 45 detailed questions relating to the firm’s staffing and operational characteristics. Of the nearly 350 firms initially responding to the survey, 192 met study standards for a complete submission. Eligibility criteria included being in business for at least one year, and earning a minimum of \$100,000 in annual gross revenue. The study can be purchased for \$250. For ordering information, please visit www.fainsight.com or call 206-826-4382.

About FA Insight

FA Insight is both a consulting and a research firm that works exclusively within the financial services industry. Our clients represent every type of marketplace participant, including individual advisory firms, custodians, broker-dealers, trade and professional associations, fund companies, banks, and accounting firms.

We provide clients with actionable insight that is based on a powerful combination of unique marketplace data, consulting and analytical expertise, and deep knowledge of financial advisors and their business environment. With a focus on supporting firms in achieving superior performance, our core services include performance benchmarking, “best practices” research, strategic business planning, and human capital management.

The industry’s leading firms depend on FA Insight for valuable, reliable benchmarking information and advice on how to address key management issues. For details concerning how we work with financial services executives to drive superior business performance, please visit the FA Insight Web site at www.fainsight.com.

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