The COO Roundtable with Matt Sonnen

Episode 66 – Carolyn Armitage

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[00:00:06] Luke Sonnen: Hi, I'm Luke Sonnen. Welcome to the *COO Roundtable*, powered by Coldstream Wealth Management. Here's your host, Matt Sonnen.

[00:00:18] Matt Sonnen: Welcome, everyone, to a special episode of *The COO Roundtable*. It's rare that I have only one guest join me on the podcast. That violates the concept of a roundtable. Today's guest warrants our undivided attention. Many of my friends in the industry have heard me say over the years that my Mount Rushmore of RIA practice management leaders is Mark Tibergien, Michael Kitsis, and Carolyn Armitage. I am beyond thrilled to sit down with Carolyn today and here's just a few highlights from her illustrious career.

She's headed up LPL's enterprise business management consulting business, where she worked with the top 42 enterprise managers on the LPL platform. She worked with them on strategic planning, positioning and value proposition, organizational design, maximizing human capital, and continuity and succession planning. All of those topics will be very familiar to our listeners. She then was a managing director at Echelon Partners, the popular investment bank, where she was a change management catalyst, helping their RIA clients improve positioning, profitability, process, and team dynamics.

Again, these are all things that we talk about at length on this podcast. Then she ran Thrivent Advisor Network, and now she's hung her own shingle and she's launched her own consulting business. I'll let her describe that in just a second. Let me first say, Carolyn, it is a real honor for me to welcome you to the COO Roundtable.

[00:01:48] Carolyn Armitage: Thank you, Matt. It's a pleasure to be here.

[00:01:51] Matt: Oh, and I should say, poor Carolyn is fighting a cold, but she is being the professional that she is. She said, "I'm not going to cancel. I'm not going to postpone." If her voice is a little squeaky, give her some grace.

[00:02:03] Carolyn: Thank you for that. I appreciate it.

[00:02:06] Matt: Tell us about this new venture and how you're working with RIAs today.

[00:02:11] Carolyn: One of my passions, and anyone who knows me or has followed me throughout my career knows that I love working with financial advisors. In this rapidly changing and consolidating marketplace, independent advisors struggle with who they can turn to for unbiased advice. That's why I started Carolyn Armitage Consulting, to really help advisors shorten their learning curve, optimize their firm's business model, their operations, their positioning, and enhance their value. I'm really able to give them a competitive advantage in a truncated way instead of them needing to learn on their own. You could say that I'm the advisor's advisor or a fiduciary's fiduciary, in that I work for the advisor, most often for the CEO.

The work consists of strategic and succession planning, compensation design, equity sharing incentives, so that they can attract and retain the best people in the industry, and firm valuation and how to improve upon it, and helping them ready their firm for their eventual transition, whether that's through an internal sale, external sale, or a merger. It has truly been an honor to help advisors through their most important business decision of their career. There's just so many intrinsic rewards with the consulting work that I do. I would imagine--well, more than imagine, it is similar to how advisors feel in helping their clients achieve their retirement lifetime goals. I say that because my entree into the industry was as a financial advisor and as a branch office way back when. I've walked in the advisor's shoes and know what they're facing on a daily basis.

[00:04:18] Matt: Fantastic. One of the reasons I've been so drawn to you, Carolyn, is our shared passion for this concept that was made famous by Mark Tibergien of turning practices into businesses. That's a big part of this podcast. It was a big part of my consulting business when I ran my own consulting firm. Talk to us about your thoughts on our industry's continued evolution of turning practices into businesses.

[00:04:44] Carolyn: This was how I entered the advisory space in the early '90s. I started on the commission side, and I too had to transition from the commission side to the advisory side. It's more than just changing how you charge clients. It's changing your business model. In the early '90s, I was at HD Vest, which is now Avantax and part of the Cetera network. I helped those advisors make that transition from the commission side to the fee-based advisory realm, which included how to have the conversations with their clients, how to build and run a business that isn't necessarily focused around them, which is more that practice element. It was helping them set up systems and processes, was tracking KPIs, and really taking them from that independent "producer" mentality to become a CEO. It is still one of my niches that I absolutely love to do.

[00:05:52] Matt: I've talked about it on the podcast before. I love the book *The E-Myth Revisited* because it talks about-- you're a great plumber and you think, "Well, I should own my own plumbing business. Owning a plumbing business and plumbing are two completely different things. Our industry needs people like you to help. I'm a great financial advisor. I don't know if I'm going to be a great owner of a financial advisory business.

[00:06:17] Carolyn: Managing people and all of the demands that are put on you as the CEO. Sometimes advisors just get crushed under the weight of their own success. That's where they send up a little flag to me saying, "Please help. This isn't fun anymore. It's too complicated. I don't know what I'm doing in this one particular instance. I need some help." Oh, and the book that you mentioned, I used to give that out to advisors when I would do day-and-a-half or two-day training on this conversion. That was one of the books I gave out because I absolutely love it.

[00:06:52] Matt: That's great. That's amazing. Speaking of evolving practices into businesses, as you know, the RIA industry is very fragmented. We have RIA firms that range from less than 100 million to now we have a few firms in the 100 billion-plus range. The latest being the combination of Buckingham and Colony Group, which is now going to be led by Adam Birenbaum. You'll hear RIA owners say, "I feel like I'm on an island. There's really not a central location. There's no real central leadership for our industry." What are your thoughts on leadership in the RIA space?

[00:07:30] Carolyn: Yes, you're right, Matt. The vast majority of firms in our industry are under a billion dollars in assets. Most of them don't make headlines due to their size. They don't hire a PR team that works for them. They don't have relationships with reporters. Really, the local market penetration is more important to them than national headlines. With the rapid consolidation that's taken place over the last decade, our industry now really has a barbell strategy or approach where PE firms are betting they can get even better profit margins by investing heavily into building conglomerates and amalgamations by combining smaller firms together. As we've all seen, some firms are doing this much more successfully than others.

This barbell approach can leave the vast majority of advisors wondering who they can really turn to for unbiased advice. Some advisors have a broker-dealer that have resources. Some custodians have relationship managers, some with business consultants. Yet those employees are often not able to provide completely unbiased guidance or be able to provide a full industry perspective from their company viewpoint. Frankly, many of these positions are being cut from companies. Just yesterday, we read about another custodian laying off a team of these value-added positions. It can really be lonely at the top. Running a business is very difficult. There's so many demands on CEOs. That's where I step in and help.

I love that Mark Tibergien hasn't fully retired, although he retired from Pershing, Bank of New York, and Mellon. He does still have some of those industry-speaking spots, which we all covet and love to go to. Certainly, Michael Kitsis cranks out more articles than one could possibly read. I know I'm amazed when I wake up and check emails, and there's five new articles that he published. He's got quite the machine going in there. The most amazing encyclopedia almost, if you will, of our industry. I think being a fiduciary for advisors that I am and having the decades of experience of growing and leading and transitioning firms helps provide that unbiased advice and help advisors see through and get through whatever conundrum that they're facing.

[00:10:28] Matt: I remember during my time at Focus Financial, and of course we weren't unbiased, but we had a really good meeting with a team that was at a traditional wire house. They met with us trying to figure out what's the best way to start an RIA, how do you make that transition, et cetera. I thought that meeting went really well, but you could tell they weren't really listening. I was frustrated and I said to one of my coworkers, "Why aren't they listening to us?" This has always stuck with me. He said, "They've been lied to their entire career. They don't trust anyone."

Unfortunately, it's true. This, again, was a wire house team, but they had moved a few times within the-- and they've been lied to so many times. Yes, having that unbiased opinion and then trying to convince them though that you are unbiased and that you are telling them the truth is sometimes harder than any of us would imagine.

[00:11:23] Carolyn: I actually faced that at LPL as well. I was an employee at LPL for the three years that I was there and had a team and was tasked with helping their large enterprises, which were very defined, to improve their business and their profitability to recruit and retain. Really become CEOs as opposed to practitioners. I remember being in one office in the East and while I met with the partners, they wouldn't let me meet with the operations team at all. Literally would not let me go to that side of the building because they just didn't trust their broker-dealer.

I think a lot of that untrust and who can you turn to-- it's hard to turn to another peer who may be in your local market because you do compete with them on a day-to-day basis. It might be friendly competition but, man, how do you share your dirty laundry with your competition? That's too much of a vulnerable position to be in. It's one of those elements that I prided myself on as being able to stay neutral and having advisors' confidentiality and their interests, first and foremost. I wouldn't have the reputation that I have if I hadn't kept advisors' confidentiality throughout all these years. It's really an honorable position to be in.

[00:13:01] Matt: Let me ask you about another headline, a phrase that's in the headlines everywhere. Is there really a "succession planning crisis" in our industry or-- and this is again, talk about being skeptical. Is this "succession planning crisis"-- is this just a marketing message being pushed out by acquirers of businesses hoping to lead through fear and convince smaller firms that they must sell to a large aggregator?

[00:13:27] Carolyn: It's a great question. Admittedly, I'm guilty as charged. I have been quoted saying that in the media before, and I don't feel it's a marketing tagline. It's really true. As someone who's helped financial advisors with their succession plans for over 25 years, the crisis part is that advisors just don't like to work on their succession plans. It's not easy. It's a difficult process. It's a difficult task. Who likes to discuss the point in time when they're no longer needed? It's the most emotionally charged decisions advisors face. Therefore, most will kick the can down the road until they really have to deal with it.

Let's see, about five years ago now, wow, time flies, there was an article that I wrote for wealthmanagement.com about helping advisors mentally prepare for retirement. I really have found that so many advisors just can't envision what their what I call 2.0 looks like. When your name's on the door and you've been doing what you do for 30, sometimes 40 years. The emotional element of selling your business is far more challenging than the numbers are. To put through the numbers, negotiate the deal, honestly, that's the easy part. Finding the right fit and coming to the terms with what your next stage of life will be, that's much more difficult.

I'll say that also, I think a lot of advisors think that because they've thought about what they want their succession plan to be, that they have one. We both know that just isn't the case until it's properly documented and communicated. Financial advisors just don't have a plan, they have ideas. I think it's probably pretty well known that the lack of a succession plan and lack of equity sharing is the number one reason why next-gen advisors leave a firm. When advisors make the effort in advance, put together a succession plan, they simply have more options. When they don't, then they will be forced to sell externally, which inherently is not a bad idea. However, after working for yourself for decades, becoming an employee in a large aggregator, having a manager where you have to have certain reporting isn't what most advisors desire as their end state.

Over the past couple of years, we're definitely starting to see some of the cracks in these relationships and deals. I would submit that for those advisors who are listening, that it is your fiduciary obligation to determine who will take care of your clients if you're not able to, whether it's death or disability. You truly do owe it to them. I would submit you owe it to your family and your heirs and even your employees to document and put together a plan. I'm not saying this as a shameless plug because I do succession planning. You don't need to do a succession plan with me, per se, but please do a succession plan with someone where you can have objective guidance in putting it together.

[00:17:25] Matt: It's obviously a cliché to call it a marriage, but I think there's a lot of struggling marriages out there because people were just bad at expressing what we want and what we need. That's what I think makes-- they just don't want to write down what they-- this end state of their career, of what they want to happen. It's just hard to get people to communicate that and verbalize it.

[00:17:53] Carolyn: Once it's done on paper, so to speak, it's more real. Firms will draft the documents with the attorneys after we work through a plan and they just don't execute them because it's so emotionally difficult. That's why having somebody that doesn't have skin in the game, help guide you through the emotional aspects-- when I was doing investment banking, there would be advisors that would call daily because they needed to share out the excitement that they had, the fears and concerns that they had. It wasn't specifically about the deal. It was the emotional aspects of the transition that they're going through. It's simply not a process that's prudent to go through on your own.

[00:18:47] Matt: One area, another area, that I think we definitely have a crisis is RIA owners' inability to execute on a strategic plan. I've spoken about this and I've written about it in wealthmanagement.com. When you ask an RA owner, "Well, what are your goals for next year?" they sit back and they think about it for a second and then they just say, "Well, we want more. We want more clients, more assets, more advisors. That's pretty much our goal for next year." There's very little strategy behind that "more." I always ask, "Well, is there a specific type of client you want more of? Is there a specific type of advisor that you're looking for? Are you thinking about the profitability of one type of client versus a different type of client?" What are your thoughts on our industry's ability or inability to actually think strategically?

[00:19:42] Carolyn: It's a really common response. I have had that same response when I asked the question, what's your vision? We want to do more. It might be a goal, a number of a certain revenue or AUM, sometimes clients, but no real inspiring message there. It's just more for more sake. I think the lack of clarity may stem from the "practice" mentality. Perhaps those advisors haven't fully made the leap to become a business owner or a CEO just yet, at least in their minds. Even for very large firms that I work with that are at that billion-dollar level, sometimes they don't have that. They've been just tremendously successful without it. You can't blame them.

Other than the volatility of the COVID years, I think being a financial advisor over the past 10 to 14 years has been an incredibly lucrative business with both financial and intrinsic rewards. Most financial advisors make a very handsome living and are able to have flexibility in their schedule. This has really created the segment of lifestyle practices and the resulting overall low industry organic growth that we see. For those who want to grow, for those who want to enhance or optimize their firm value, a strategic plan is needed for the clarity of decision-making, and prioritization of projects, and having employee alignment. You're right, there's not enough strategic planning going on in our industry. Albeit, a third of my clients, maybe even up to 40% now, we're working on strategic planning with them.

[00:21:55] Matt: Let me switch gears. We talk about people management a lot on the podcast and many owners will say, "I got into this business to help clients. I didn't realize I was going to have to manage people." They delegate a lot of the HR duties to their COO. Many of our listeners are dealing with a lot of people issues. What is your advice for building high-performance teams?

[00:22:23] Carolyn: Thank you for asking this question as I love building and managing people, building teams, I should say, and managing people. I've done quite a bit of it in my career through leading organizations. I agree with you that many financial advisors have never been formally trained on managing people. Some don't even like it. Given that payroll is the largest expenditure on their income statement, firms will benefit by paying more attention to the people that make their business run smoothly.

After all, we're in a service industry. I think for brevity sake, because we really could do a day and a half workshop on this topic, I'll share that generally employees will not treat your clients better than they're treated. Think about employees as your internal clients, and they too need to be treated well. This doesn't mean giving into everything that they want. It goes more to the culture of the organization, demonstrating appreciation, and providing the right incentive package.

[00:23:42] Matt: I've described it as the-- I think that we get tied up in the "fiduciary" rule, and that we say clients come first. I try to open people's eyes and say, do how bad that makes your employees feel when-- I get it, but if your client-- if their car broke down on their way to a meeting at your office and they called and said, "Hey, I'm going to be late. I'm down the block," you would drop everything and jump in your car and you'd go pick up your client. If your employee called and said, "Hey, I'm going to be a few minutes late. I broke down right down right at--" you'd say, "All right, well, get here as soon as you can," and you'd go about your day.

We just don't treat our employees like we do our clients. I think they're coming from a good place. It's just been pounded into our head, clients come first, clients come first, but employees pick up on it so quickly and so easily. They're literally rubbing elbows or shoulder-to-shoulder with you all day long. They can just tell that you care about them a heck of a lot more than you care about the employees.

[00:24:40] Carolyn: Particularly, when they don't have the right long-term incentives, they're not equity owners, not having the right culture, not having the right manager is one of those reasons why employees leave. It's often not because of compensation. It's more the environment in which they're working. There's so much here. I absolutely love this topic. Matt, can we go back a moment? You're talking about the industry's ability to think strategically before. I'm not sure I fully answered that question well enough because what I would say, I really feel that PE firms have noticed the incredibly large profit margins in our industry. It's large profits on average, an RIA firm will make 25% profit margin. The better-run ones will make 35% profit margin. Heck, I've seen them up to 70% profit margin.

The PE firms are definitely thinking strategically. We've seen many of the local RIAs hop on the consolidation train to participate in this. I think that's helpful. However, the vast majority of our industry is still a cottage industry with small businesses sprinkled all over this amazing nation of ours. They may not be driving the innovation in our industry, but they really are the backbone. I think what's interesting to consider is just how far the consolidators will go over the next 10 years. When you think back, our independent industry was founded by wire house advisors wanting to be independent, wanting to be able to offer investments that are appropriate for their clients, not just the house brew that they have to offer.

Through the consolidations, most of the platforms now offer their own version of money management with either their preferred investment list and models or are literally managing the money themselves and double dipping, if you will, on the management fee, as well as whatever platform or cost of associating with them. Many of the firms are offering trust services, tax services, et cetera, for that all-in-one experience, which can make for a terrific client experience from an ease perspective. However, how far will these firms go? Are they becoming the next version of a wire house? How many of them will go self-clearing and establish their own custodial relationship to further that all-in experience? How will advisors feel about that experience and what pressure will be put on them to sell that house blend?

[00:28:00] Matt: We circled back to that in the middle of talking about employees. Let me tie the two together. Is 70%, 75% profit margin too high? Are you neglecting-- and I don't even just mean what you're paying them, but do you not have enough employees at that point? Are you not investing in technology to make the firm more efficient? Is there a too high number for profit margins if you're running an enterprise? Sure, the "solopreneurs" the solo advisors, they can absolutely have profit margins that high. If we're talking about an actual enterprise, is there a too high number that you would say, "Hey, you need to start investing in your business?"

[00:28:42] Carolyn: In selling their business or having somebody else value it, you can have your valuation done in isolation. In deal valuation, when you have a profit margin higher than 35%, you're not rewarded the same amount that you would be, because it is viewed, like you were saying, that they haven't invested enough in the growth of the organization and that the firm could have done more and would have grown faster if they had invested more in people and technology and such. The rewards just aren't there in a deal perspective. However, it comes down to what your EBITDA growth has been year over year. That'll be the real measure.

[00:29:31] Matt: That's helpful. Thank you. We touched on compensation there for a second, and I agree 100% that compensation isn't necessarily the number one driver that leads to team loyalty or commitment to their job. Obviously, compensation is important. Many of our listeners struggle with, well, what is the right compensation for my team? There's a lot of surveys out there on compensation because many RIAs, again, they feel like they're on an island and they rely on these surveys to understand what the proper market rate, I'll call it, for different positions within our organization is. In your mind, what are the pros and cons of relying on these compensation surveys?

[00:30:15] Carolyn: That's a great question. I do feel these surveys are an interesting place to start. I know them, I read them, I have them. They often fall short of answering the question of how do I pay my employees and what incentives do I offer, because they're just not personalized. This is where I can come in and help. There's many concerns with the surveys' data that make them just unreliable for business purposes. The surveys are 100% voluntary and the same companies aren't required to submit annually. Therefore, year-over-year results can be wonky, to use a technical term. Some will have a small sample size, depending on where you're located for the geo. Some don't even do a geo. There's not enough data points there to [crosstalk]--

[00:31:15] Matt: Compensation is so geographically tied.

[00:31:19] Carolyn: Yes. Some surveys are based on revenue, which is an important measure, but is their business model like yours? Are they a hybrid advisor, or commission-based versus a fee-only advisor? Are they in the retirement plan space? That's a high-asset, low-margin business. Oftentimes those folks only charge 25 basis points versus your one or one and a quarter that you may be charging your clients, different markets. I don't know that it's fair to compare those. Someone could be in a high-net-worth space. What services does the firm offer? Is it true comprehensive financial planning?

There's no solid industry definitions within our industry. It makes it hard to compare the apples to apples without really getting into the details. For advisors in the suburbs and/or rural areas, there's oftentimes just not enough data points. Depending on what your business model, are you a W-2 or 1099 model? Are you fee-only? Are you fee-based? Do you have a corporate RIA or an independent RIA? Are you a wire house? No one really validates the data [crosstalk].

[00:32:43] Matt: They lump them all together in these surveys. You're right.

[00:32:45] Carolyn: Yes, it's just submitted. They're great. I've got all of them and I do think they're interesting. When your advisors and/or employees cite those to you of like, "Look, I should be paying more." That's where I can help explain the difference in what this employee is making and why versus what they may be seeing in the industry. An interesting case study was, there was an office I was working with in the Midwest just this past couple of months, who was really modeled after the old producer schedule, even though they had gone fee-only. Yet their compensation system never made the change.

Compensation was really out of line and it was only going to get worse over time. We did a complete reshuffle on their compensation and the employee ended up making actually more for this year but it's at an appropriate scale going forward. Going through your specific circumstances, what's right for your business, what your objectives are, what your long-term vision is for the organization, it's hard to do through surveys. It's just not going to be the right specific data for your firm.

[00:34:14] Matt: Then outside of salary bonus and traditional benefits, how important is equity when it comes to retaining key employees? You said earlier that a lot of next-gen leave when they don't have access to an equity plan.

[00:34:30] Carolyn: That's the number one reasons why the next-gen advisors leave their firm. Recently, Citywire published an article that I wrote on this very topic. You and I both know that ownership is the key to real wealth in our society. You can get wealthy if you make a high income and you have good savings. Real wealth is going to come from capital appreciation. What we have seen for a variety of reasons, there have been firms that push or put in place phantom equity plans because then the owner doesn't need to give up or share any real equity, but it's right there in the title. It's phantom equity, it's not equity.

It's really a rolling bonus program or a deferred compensation plan since the proceeds that the advisor and the employees receive will be taxed at ordinary income rates, not capital gains rates. The more astute financial advisors and employees get that and they don't feel like owners. They know they're not owners. I feel there's many other ways that you can get folks to buy in to the organization, both emotionally and financially.

[00:36:06] Matt: That's great. Another topic, I often ask our COO guests for their best tips and strategies for implementing change in their organization. Whether that's adopting a new technology tool or implementing a new process within the firm, change is always hard for people. It seems that you're always fighting the, "But we've always done it this way," mentality. I know you've been focused on change management for much of your career. What suggestions do you have for us around change management?

[00:36:38] Carolyn: Great question. I'm one of those odd ducks that love change. I actually get bored if things don't change up enough. While some of the solutions may be similar firm to firm, the personalities that you're dealing with and the advisor's objectives are so different consulting stays interesting enough for me to stay very engaged and very compassionate and caring for my clients. To lead people through complex change, I utilize a structure that involves five different elements. That would be a vision. Having a vision, ensuring folks have the right skills for the change that's coming up. There's incentives in place. There's resources and an action plan.

In order to have effective change, you need all these. If you're missing any one of these elements, there are oftentimes undesirable consequences. For example, I mentioned, and I think you mentioned as well, a vision earlier. If you don't have a vision in place, folks will be confused as to why are we changing this. If someone doesn't have the skills, they're going to have a lot of anxiety about not sure if they can perform the new tasks being asked of them. If there's not the right incentives, you're going to have a lot of resistance of, "What's in it for me? Why should I do this? This isn't in my job description." If there's not the right resources, folks will be very frustrated. If you don't have an action or implementation plan, I've seen firms go through a lot of false starts. You really need all five elements and appropriate communication to lead effective change.

[00:38:47] Matt: I love the framework, those five. I think you're 100% right. Let me ask you, when do you switch from carrot to stick? We're implementing a new CRM. At first it's, "Wow, everybody, Johnny put a task into the CRM. Let's have a pizza party to celebrate Johnny," and we're finally starting to use it. Then when do you finally have to, "Oh, Johnny's not doing it. Johnny's not doing it. We've had the pizza party for everybody else. Johnny won't do it. Hey, Johnny, you're going to be fired if you don't start putting tasks in." When do you make that switch? This is a very tough question. There's not a great answer for it, I'm sure.

[00:39:26] Carolyn: It's a really good question. It's one that firms struggle with. I think it goes to the communication plan. Oftentimes in firms, you'll see unexpressed expectations and/or a lack of performance management systems. When the right expectations aren't set and you don't have a somewhat formal system, it doesn't have to be completely formal, but something that's scheduled out for performance management and the KPIs aren't tracked, it's real easy for someone to slip through all of these. I'm much more of a carrot person than a stick. The stick comes in when someone is not meeting those expectations and they've been communicated to. I have spent a great deal of my career as well as my consulting work, helping advisors get out of sticky water and ideally preventing the difficult situations. I live in California, which can be a highly litigious state.

Making sure you've set up the right expectations, set up the employee for success so that they can't have a complaint if you do need to fire them. When it comes time to where they're just not meeting expectations, you then put together what's known in the HR industry as a PIP or a Performance Improvement Plan. This is where you're documenting your file as to the communication that you've had with the employee and what the expectations are and how they fell short and no judgment, it's just factual information and that the employee understands that. Then you have a review in 30 days to see if, okay, are they now meeting expectations?

If not, they understand that you're going to do another review 30 days later. If the performance doesn't improve, one of the remedies may be termination. You go through this communication process, it's usually over 90 days, which can be painful when you go through it, but it's way less painful than having to deal with a EEOC complaint. Having to go through arbitration and or pay fines for employees. It's really setting up the right expectations and having good communication. I always like to say that feedback is a gift and checking in with employees every six months, having a formal review annually, but checking in at six months and that all of those performance reviews, nothing should be a surprise. When there's a teachable moment, we all screw up.

When mistakes happen, I like to have a culture where it's okay to make mistakes as long as you learn from them. If someone repeatedly makes the same mistake, they either aren't trying or they're not competent in the role. Sometimes people are promoted into a role that they're just not right for. I've helped do an assessment of firms and all the employees and their skillsets and seeing if they're being underutilized, seeing if they're in over their head. It is complicated, exactly.

[00:43:11] Matt: I jotted down the five that I love, the vision, knowing the skills needed for the change, incentives, resources, and an action plan. I feel like you use the word communication even more than any of those. It's you have to communicate the vision, communicate the skills that are going to be needed, communicate the incentives, communicate the resources, and communicate the action plan, and keep checking in with everybody. Communication is the key that lays on top of all five of those. It's a huge point to make, yes.

[00:43:41] Carolyn: That's the delivery of the structure. Absolutely.

[00:43:45] Matt: Carolyn, I've saved my toughest question for last. We talked about how RIA owners often struggle to think beyond, "Well, I just want more, I want to be bigger," when it comes to their strategic planning. It's often hard for them to think about what's next for the business. I want to ask my final question for you. What are your tips on how an RIA can increase the enterprise value for their organization? This is the one that everybody's thinking about, but they get lost in, well, how do I actually do that?

[00:44:17] Carolyn: That's a super broad question because so much of that can be situational for each firm. If I pull back and look at the underpinnings of what I would call inefficiencies or how to unlock the value in organizations, I'll still stick with the vision, to have a vision. Where are they going and why? Having a vision statement can sound like an unnecessary academic exercise. It actually creates clarity for decision-making, prioritization of projects, and alignment of objectives. You really need to ensure that you have alignment with your values as well.

Number two, I would say the communication, improve communication feedback. The unexpressed expectations. Folks avoiding having difficult conversations can lead to all sorts of dysfunction within an organization. Sometimes it's just an oversight. Sometimes CEOs come up with a fabulous vision, and they roll it out maybe at the beginning of the year, it's in a PowerPoint. Because CEOs think about their business 24/7, 365 days a year and this vision they spent so much of their time and effort in crafting it, they feel that all the other employees should get it. They should [crosstalk] it. In reality, the CEO needs to communicate or really over-communicate the company vision very frequently until every person in the organization can recite it in an unaided fashion and really believe and get on board with it. Improving communication is a huge efficiency improver for organizations.

Next, I'll keep it to 5 because I could probably go on to 10, but we don't have time for that. Next, I would say that people matter. We're in a service industry and who you work with matters. It has the biggest impact on your day-to-day satisfaction, enjoyment, and fulfillment. If you're working with the wrong people, the wrong partner, it can cause the biggest frustration. We're in the people business, we're in a service industry. Keep in mind that relationships matter more than a few basis points do. If you're not with the right relationships today, that pain of change can be worth the transition costs to be in a better space.

Fourth, I would say would be KPIs. What you track gets worked on. It gets the attention and the focus of employees. What you want really needs to be incentivized and then it'll happen. When firms set out KPIs, the owner may have 10, 12, 20 KPIs that they track, that's overwhelming for an employee who's not an owner. I recommend that they boil it down to three, no more than three. I think that's the most employees can keep track of and tie their bonus to hitting those KPIs. Then the last one, I would say perhaps marketing. I think marketing trumps portfolio acumen almost every time.

You can be a great portfolio manager. You can be the greatest portfolio manager in the world, but if nobody knows or you can't tell the story well, then your firm is not going to attract as many assets as those that are in the headlines every day, those that have a structured marketing program that they invest in. With the advent of technology here over the last few years, we have seen advisors be more interested in marketing and do more of that, which warms my heart. We do have a long way to go compared to other industries, but I think that's due to the lifestyle businesses where we have terrific profit margins and advisors are in a very comfortable position and don't always even want more. There's so many others I could go into. There's other ways to tweak your profit margin, whether it's increasing fees, how to reduce some of the waste in organizations and such, but I'll leave it at those five, I think, for now.

[00:49:52] Matt: You gave a masterclass right there with that answer. That was incredible. That right there, you couldn't have said it better. The one I'm going to latch onto though is the uncommunicated expectations. We talked about earlier, RIA owners aren't always great people managers. I've just heard so many times. I shouldn't have to explain this to my staff. If the workday begins at 8:00, okay, I get it, you shouldn't have to explain this, but they're going to roll in at 8:03 and then they're going to spend another 20 minutes getting their coffee and everything. Then it's just irking you. You have to communicate that no, the workday starts at 8:00, get here at 7:45, get your coffee, get comfortable, then we're kicking off at 8:00. Whatever it might happen to be that's driving the owner nuts. You have to communicate these things.

[00:50:45] Carolyn: Particularly challenging is how COVID has changed our environment. Before, almost every organization was in person, in your seats, 8:00 to 5:00 environment. Now, definitely not all, I would say most organizations do have some level of virtual employees. How to manage through that is really challenging for owners. When I went to TAN to help build out that organization, it was during COVID. My entire team was virtual.

I was able to pick people from across the country, best of the best. Setting up the proper systems to be able to communicate, share out wins, have fun together, as well as do work together, it's a new and different medium. There's a ton of employees who go to work each day. If their monitor isn't turned outward where others can see it, they're playing cards. They're watching a Netflix video with an earbud in. Just because somebody's present doesn't mean they're working.

[00:52:11] Matt: That's right.

[00:52:12] Carolyn: There's a lot of employees who quit. They just don't leave. This is where having relationships with your people-- you don't have to be complete buds with them. In fact, sometimes that can be challenging. To have mutual respect and open communication, it's super important for the efficiency of your organization and the health of it. This is what goes to that squishy term of the culture of your organization. I like it when organizations have a handbook about the culture of their organization. They may have a formal HR handbook for policies and procedures, from a compliance perspective, but a culture workbook, that's where you know the firm's at another level. I love to see that.

[00:53:08] Matt: Carolyn, I said it at the beginning, this has been a real thrill for me to sit down and bend your ear for an hour. I can't thank you enough for being here today and sharing so much of your wisdom with our listeners. Thank you.

[00:53:19] Carolyn: Oh, it's my pleasure, Matt. Always a joy to speak with you. I love what I do. Hopefully, that exudes well and love to really help move the industry forward in a compliant fiduciary fashion. Whatever I can do to help, I'm here.

[00:53:38] Matt: Perfect. We'll put a link to your new website in the-

[00:53:41] Carolyn: Thank you.

[00:53:41] Matt: -show notes, absolutely, so people know how to get ahold of you.

[00:53:45] Carolyn: Beautiful. Thank you, Matt. Thank you all.

[00:53:47] Matt: Thank you. That is a wrap on episode 66, everyone. We will talk to you all soon.

[00:54:10] [END OF AUDIO]