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Advisor Services

Establishing a firm's legacy through a cycle of opportunity

Attracting, developing, and retaining key talent to ensure the continuity of a firm's people, culture, and values

GPS

Guiding Principle Series™

About Schwab Guiding Principle Series™ Insight Papers

The Guiding Principle Series (GPS) is based on the Guiding Principles for Advisory Firm Success, a foundational framework that helps advisors address the complexities of growing their firms and creating enduring enterprises. Grounded in the best practices of leading independent advisory firms, the GPS delivers relevant and timely information to help advisors solve their unique challenges and strategically manage and grow their firms. The GPS includes industry-leading studies, resources, and tools from Schwab that are designed to help advisors explore innovative concepts and obtain new insights as they set the strategies that propel their firms to new levels of growth.

For more than 20 years, Schwab Advisor Services™, the leading custodian of over 8,000 registered investment advisory firms, and Schwab Business Consulting and Education have been working hand in hand with advisors, leveraging our deep expertise in core business issues to help firms achieve their goals and gain competitive advantage. Schwab's collaborative approach leverages the guiding principles to help advisors benefit from the proven practices of the industry's most successful RIA firms.

Visit advisorservices.schwab.com/guidingprinciples to learn more.

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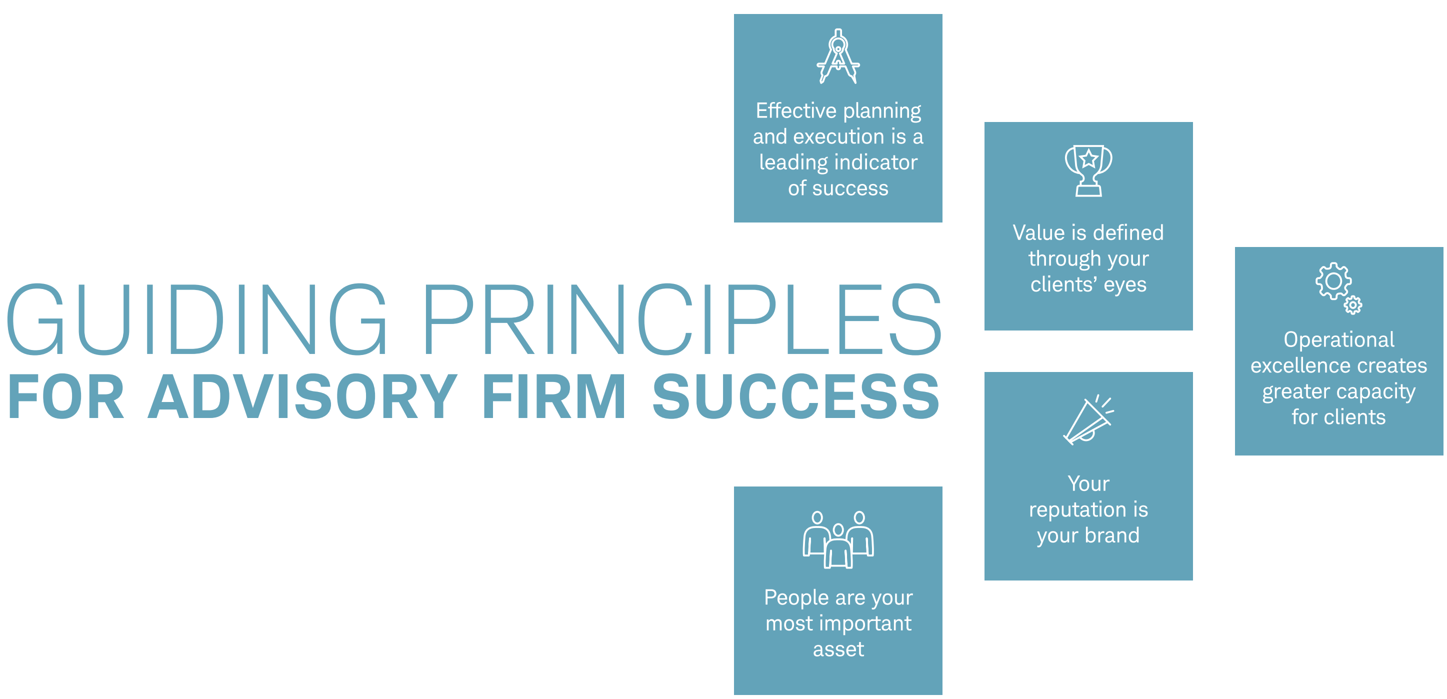


Introduction

A firm's talent is not only a means to serve its clients, but also a key driver of growth and sustainability—both of which are imperative for the longevity of a firm. As a firm grows, it becomes more complex, and those who outperform generally have the right organizational strategy in place to attract, develop, and retain top talent. These firms adopt the attitude that their employees make up the backbone of their business and are their most important asset.

Outperforming firms are able to harness the power of their talent to propel them to new levels of growth and move them closer to their vision for the future—who they are and where they want to go—while ensuring continuity of their culture and values. They have a clear understanding of where they want to be in 3, 5, and even 10 years and a defined path of how they plan to get there. And, they are committed to maintaining their core purpose—their fundamental reason for existing—so that they may continue to authentically serve their clients well into the future as their business and client service models evolve in response to changing client needs.

A firm's talent helps ensure that the intrinsic reason the firm was started in the first place endures even after its founders have exited the business, all while helping to generate higher degrees of growth, creating more opportunity for new and existing team members to thrive, and generating client loyalty over the long term. That's why the most successful firms understand that people are their most important asset and make a strategic decision to invest not only in their business, but also in their people.

This paper highlights key elements for managing a firm's talent that, together, form a cycle of opportunity to help an advisory firm grow:

- Organizational strategy
- Compensation, benefits, and incentives
- Sourcing and hiring
- Talent development and retention
- Succession planning

This paper also indicates where additional resources are available so that advisors may continue to explore these concepts in greater detail as they develop their firm's own talent strategy.

Firms that employ the cycle of opportunity create a virtuous cycle

Working in concert, the key talent strategies contained within the cycle of opportunity enable a firm to begin growing at an increasing rate. Over time, more people become attracted to that firm because of the future opportunities growth affords, and potential candidates become high-performing talent as they develop and grow within the firm due to the cycle. This process continues to build upon itself not only because more people are now involved in the firm's growth, but also because they are able to attract higher-performing talent that strengthens the business and creates a higher firm valuation.

Guiding Principle: People are your most important asset

Creating a cycle of opportunity to attract and retain top talent helps ensure continuity of your firm's people, culture, and values as you prepare for the future. That's why having a high-performing and diverse team, unlocking their potential, and rewarding and developing the next generation of leadership is a long-term commitment and critical to building a legacy.

A framework for managing a firm's talent

According to the RIA Benchmarking Study from Charles Schwab, staffing and compensation account for 73% of a firm's annual expenses and serve as one of the most effective tools for managing talent. High-performing firms capitalize on this point and dedicate time and resources to developing an effective talent strategy by creating a cycle of opportunity. They methodically recruit and hire quality talent based on their firm's organizational strategy, they effectively motivate their people with attractive compensation packages and incentives, they manage staff performance by linking compensation to career development and conducting regular performance reviews, and they thoughtfully grow their best talent through clear and meaningful career paths, increasing responsibilities, and leadership development. Working in concert, these strategies increase the likelihood of acquiring, developing, and retaining key talent and capabilities within the team over the long term and can result in a succession plan that allows a firm to continuously serve its clients well into the future.

The cycle of opportunity is not intended to be approached sequentially; rather, it acts as a framework in which advisors can engage at different times and at different points in their firm's lifecycle, depending on their situation. A fully staffed firm may be focusing its efforts on developing its high performers and planning for the succession of its principal, for example, while another firm may be concentrating on recruiting and hiring additional employees to capitalize on growth-related opportunities. Yet another firm may be assessing its compensation structure as it looks to implement team-based performance goals for the first time. At the core of each decision, however, is a firm's ideal client—those clients a firm is best suited to serve—and the firm's organizational strategy.

Organizational strategy

Outperforming firms understand that form follows function where a firm's organizational strategy must support its intended purpose. In simple terms, a solid organizational strategy identifies how a firm intends to meet its goals and facilitate growth by hiring, retaining, and incentivizing its people; structuring the different teams and reporting lines; and designing workflows to ensure a consistent, high-quality experience for a well-defined ideal client. The moment a solo advisor joins another advisor or hires an employee, an organization is born and responsibility, accountability, and interactivity begin to emerge. The individuals, their responsibilities, their level of authority, and the means by which they collaborate to serve clients begin to define the firm's organizational structure—the tactical approach a firm takes to distribute and coordinate its work activities in a way that allows its employees to most effectively work towards the firm's goals.[1] These considerations only intensify as the firm grows in assets, client relationships, employees, and role types.

> "Firms must maintain a cycle of opportunity to attract and retain talent, one that spans recruiting, talent development, competitive compensation, and a path to equity ownership. Investing in these areas is an investment not only in the individuals but in the future success of the firm."
>
> **Nikolee Turner**
> Managing Director, Business Consulting and Education
> Charles Schwab Advisor Services

A solid organizational strategy accomplishes several key objectives:

- Positions the firm to deliver a client experience that is aligned with the firm's strategy and vision
- Clearly delineates roles and responsibilities as well as performance benchmarks for each position in the firm
- Balances span of control and cross-functional integration of business activities
- Enables clear authority and accountability for decision making
- Creates minimalistic reporting hierarchies that are logical and clear to everyone within the firm
- Clarifies the conditions necessary to fund roles and creates alignment among leadership around which roles will be added and at what point in time
- Defines and supports development and career growth of employees
- Facilitates strategies around other goals such as succession planning, a path to equity ownership or partnership, and the creation of a culture that embraces diversity (age, gender, and race/ethnicity)

A sophisticated approach to an organizational strategy focuses on a firm's overall capacity and capabilities and allows advisors to plan for the future by structuring their organization in a way that evolves as their client base grows. Advisors might start out as solo practitioners but reach a point where they find it difficult to bring on more clients unless they align with other advisors to share support staff and office resources.

For many firms, especially those earlier in their lifecycle, their organizational structure may be reactive, with individuals gravitating toward the routines and relationships that feel most comfortable. The highest-performing firms, however, develop and maintain organizational structures that are deliberate choices. A firm, for example, may choose to address growth not by simply adding another advisor, but instead by transitioning a high-performing individual into a full-time management position such as an Operations Director to help create efficiencies within the firm and decrease time spent on operations so that existing advisors may serve more clients. Along similar lines, the firm may choose to transition from a silo model to an ensemble model, where the firm is organized into a team-based structure with a focus on specialized roles and shared processes. In these firms there is consistency in a shared vision, the way work is done, and investment products and management. And, they are frequently faced with different talent decisions as they

Ideal client

Effective talent strategies are based on a firm's ideal client

A firm's talent strategy starts with having a clearly defined picture of the clients a firm is best suited to serve—their ideal client. Ideal clients are those who understand and appreciate a firm's value proposition and are ultimately the best fit for that firm. Having a vivid and specific picture of a firm's ideal client persona enables firm leaders to uncover what clients really want and to obtain a deep understanding of how they provide value to those clients. Partners and staff can apply the lens of their ideal client as they make strategic decisions, work to acquire and retain clients, and even hire and motivate employees who are best able to meet their clients' needs. For example, a firm whose ideal client consists of families with a member who has a disability, such as a child with autism, may be better positioned to understand and meet their needs by hiring an advisor who also shares, or at least can relate with, similar experiences. Together, the client and their advisor can more easily discuss decisions related to caring for someone with special considerations, such as who will make fiduciary decisions on behalf of the child when the time comes and how to plan ahead so that the money will last at least two generations.

Based on their ideal client, firms can develop the client experience they want to provide and elevate that experience in a way that helps the firm stand out among their peers. The key is clearly defining whom their firm will serve, defining their needs, wants, and expectations, and using that knowledge to design an effective organizational strategy to serve them.

High-performing firms develop and maintain organizational structures that are deliberate choices

Virtually every advisor faces decisions about organizational structure. A sophisticated approach focuses on a firm's overall capacity and capabilities and allows advisors to plan for the future by structuring their organization in a way that evolves as their client base grows. While vision and strategy define how a firm will optimize opportunities, organizational structure lays the foundation for how work will be clarified, performed, and distributed in ways that are accountable.

	Solo	Silo	Ensemble	Enterprise
Description	Single advisor with own practice Advisor maintains little or no organizational structure	Multiple advisors under the same roof Advisors may share support staff and overhead costs but own separate investment portfolios and philosophies	Multiple advisors, possibly in multiple locations Firm may have the beginnings of individual or team areas of specialization, as well as dedicated departments (e.g., operations, investments, etc.)	Single brand, multiple locations and lines of business, large number of client relationships Firm has the ability to structure itself in significantly different ways, such as by departments or service teams
Client ownership	Clients owned by advisor	Clients owned by individual advisors	Clients owned by the firm, with advisors providing team-based relationship management	Clients owned by the firm, with advisors providing team-based relationship management
Leadership structure	Advisor makes all decisions	Advisors jointly responsible for firm-related decisions	Decisions made by leadership team that reports to CEO and/or Managing Partner	Multiple levels of management responsible for day-to-day decisions Oversight through dedicated C-suite executives often reporting up to Board of Directors
Support team	Advisor may employ administrative support, who may also be responsible for client operations	Shared administrative employee(s)	Individual support for each client service team evolves into central administrative and operational teams for entire firm	Centralized and institutionalized administrative and operational functions supporting entire firm across locations

determine how to retain and develop high-performing, high-potential staff. Often, these firms must develop documented career paths, contemplate their incentive structure and the path to partnership, and determine how to empower the second and third generation of leadership to take on more of a governance role for key decisions. A purposeful organizational strategy is foundational to all the other pillars in the cycle of opportunity, as it provides a basis for not only attracting and retaining talent, but for attracting and retaining the *right* talent. For example, a solid organizational strategy enables firms to hire the right staff based on the client experience they intend to offer their ideal client and also helps to provide a structure for their compensation and succession plan.

> "I'm trying to incentivize, and to support, and to magnify people's ownership behavior in the company. We want them to own the problems."
>
> **Burnie Sparks**
> President
> Bailard Wealth Management

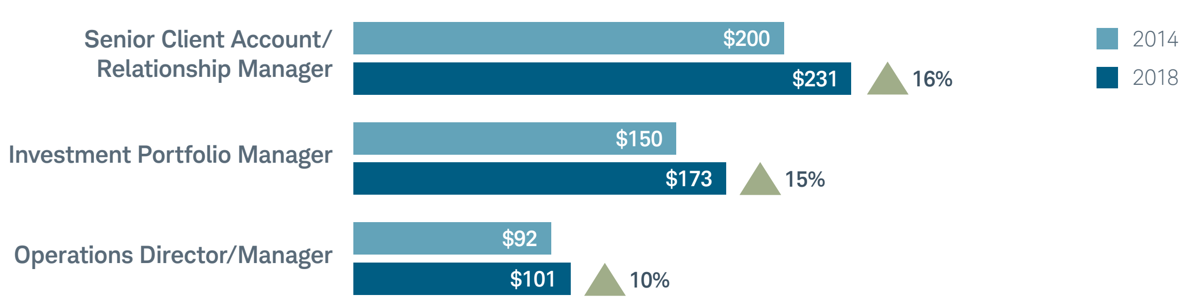
Compensation, benefits, and incentives

Staffing and compensation account for approximately three-quarters of a firm's expenses—its largest expenditure. This fact highlights the importance of having a well-planned and well-executed compensation strategy that appeals to both potential and existing employees. Attractive compensation plans, however, offer more than just a base salary and may include the creative use of incentive compensation; benefits packages; non-cash compensation such as flexible work schedules, gym memberships, or subsidized public transit; and a formal path to partnership. In general, base salary is the reward for the expected job performance, while incentives recognize performance beyond base expectations. The way firm owners choose to compensate employees using these elements can directly affect motivation, productivity, and the quality of talent the firm is able to attract and retain.

Firms that excel at designing attractive packages also align their business strategy and compensation plan to help generate greater profitability, increase operational efficiency, and create a distinct competitive advantage. For example, a firm might incentivize its employees based not only on the activities those employees undertake, but also on the results they achieve on an individual, team, and even firm-based basis. Employees may receive compensation when they meet with a certain number of centers of influence to help cultivate those relationships, and they may be rewarded further when those relationships result in referrals and incremental clients for the firm. According to the compensation portion

Some key roles have seen a strong uptick in compensation

Total compensation including owner profit distributions.



Median results for all firms from the compensation portions of the 2015 and 2019 RIA Benchmarking Study from Charles Schwab.

of the RIA Benchmarking Study—which helps firms compare compensation strategies with other RIAs in their geographic region and nationally—29% of firms are rewarding their employees for the revenue they bring into the business from new and/or existing clients. A firm may also have a well-defined plan for creating efficiencies and productivity improvements to realize long-term goals and reward employees when those accomplishments are achieved. Linking compensation with performance goals, team-based goals, or company-wide milestones reinforces specific skills that help the firm achieve its vision and motivates employees to internalize that vision, resulting in a positive effect on profits and earnings.

For more information on Schwab's RIA Benchmarking Study, read our *Benchmarking Study compensation* GPS paper

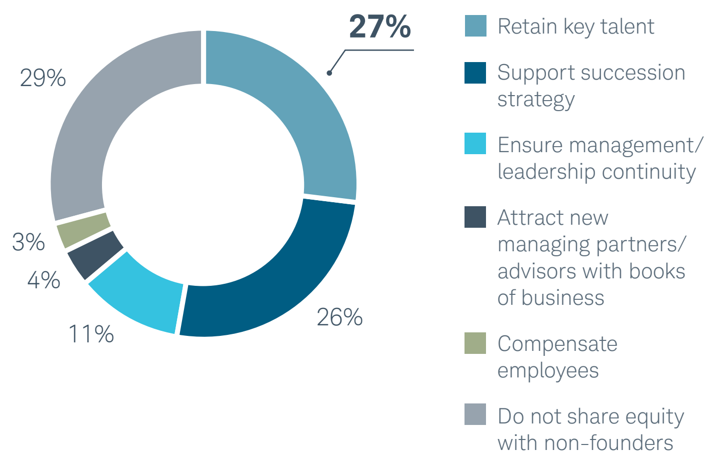
Please see page 15 for a full list of Additional Resources.

A strong compensation plan can also make firms more competitive in the race for top talent. With more than 7 in 10 firms planning to hire staff in the next 12 months, firms may face competition in finding the right employees.[2] Consistently evaluating the work environment and overall compensation packages a firm offers helps owners develop, adjust, and evolve a compensation structure that supports their talent strategy. In fact, most roles have experienced a strong uptick in compensation over the past four years. For Senior Client Account/Relationship Managers, for example, total cash compensation including base salary, incentive pay, compensation tied to revenue, and profit distributions increased 16% between 2014 and 2018—from $200K to $231K at the median. In comparison, the Operations Director/Manager package increased 10%—from $92K to $101K at the median.[3]

Beyond compensation, many firms also choose to include a formal path to equity ownership or partnership as they seek to acquire and retain employees with specific skills and experience levels. In fact, 27% of firms leverage equity to incent high-performing employees to remain with their firms on a long-term basis; however, that doesn't necessarily mean those employees will someday lead the firms. Instead, it can allow everyone to share in the success of the firm and influence an ownership mindset motivating staff to contribute toward the firm's success. In addition, as firms grow larger and more complex, broadening equity ownership becomes increasingly important to those seeking to attract more high-performing talent with specialized skills. This point is supported by the RIA Benchmarking Study, which found

Firms are sharing equity to retain talent and support their succession strategy

Primary reason for sharing equity
% of firms



Percentage of all firms with $250 million or more in AUM that selected each response from the 2019 RIA Benchmarking Study from Charles Schwab.

that the larger the firm, the more likely it is to offer equity. Eighty-three percent of firms with $1 billion or more in AUM share equity with non-founders, compared to 65% of firms with $250 million to $1 billion in AUM. Equally important is the transition of decision-making control from the firm's founders to second- or third-generation leaders. Providing these leaders with a gradual path to control allows founding owners to continue to influence and coach their successors. In turn, they are able to create continuity in their firm's culture and client experience in a way that is reassuring and drives loyalty. It also rewards the loyalty of high-performing individuals, making it harder for competing firms to disrupt a succession strategy by recruiting away key talent.[4]

Once their compensation plans are set, firms regularly monitor them to ensure ongoing alignment with their growth strategy and vision, as well as current market expectations. A well-thought-out compensation strategy that addresses all aspects of compensation and aligns with a firm's strategic plan can help ensure that firms build and maintain the level of human capital that is vital for creating a thriving business.

For more information on equity ownership, read our *Expanding ownership* GPS Insight Paper

Sourcing and hiring

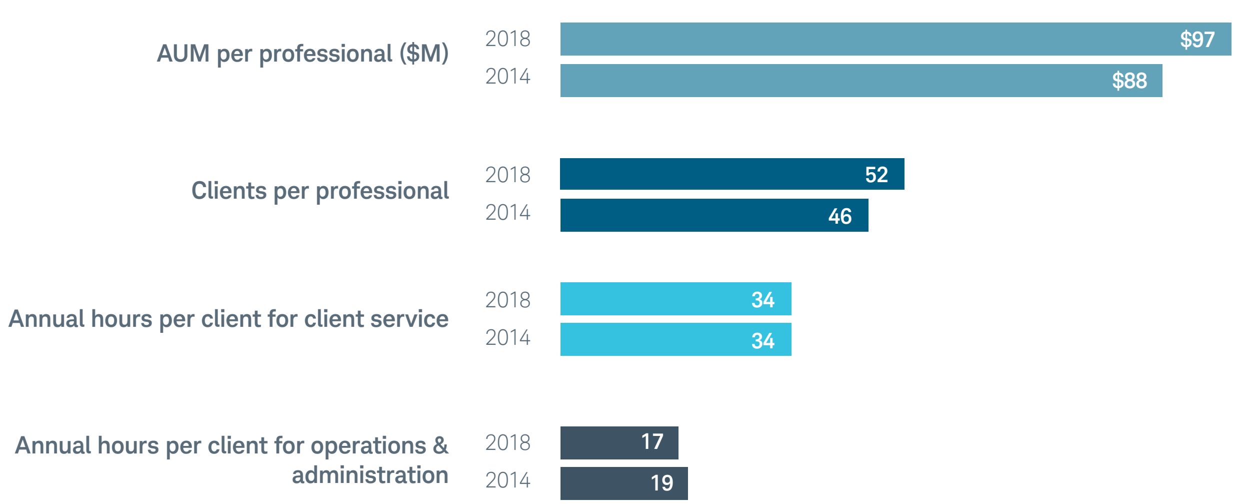
With a clear organizational strategy in place, advisors are equipped with a roadmap of the talent they'll need to fulfill their vision. Finding that talent, however, is an ongoing process of looking for the best people who have the skills and competencies required to implement the firm's business strategy. High-performing firms tend to have a clear, well-articulated recruitment plan for sourcing and hiring talent that is integrated into their overall strategy for growth where capacity needs are anticipatory rather than reactive. These firms put almost as much emphasis on attracting staff as they do on attracting clients. If the business wants to grow according to measured and deliberate strategic goals, it is imperative that the right people are selected to help achieve these goals.

Many advisors begin the recruitment process by establishing clear requirements such as revenue growth for when they should make the decision to hire. They also create a practice of regularly reviewing their organization to ensure that their firm can efficiently and profitably handle new client relationships, building thresholds into their hiring process based on AUM or number of client relationships. Often, this happens far ahead of the actual act of hiring and helps a firm to build depth and leverage skills and capabilities across the entire organization.

For example, some firms evaluate the decision to hire from a client-capacity perspective. As the service demand from each existing client relationship increases, the number of client relationships per professional tends to decrease. Under these circumstances, some firms choose to hire operational staff to help institutionalize operations and optimize their technology. In fact, over the past five years, advisors have worked to maintain client service levels while increasing productivity.[5] By leveraging technology and standardizing processes, firms find they are able to decrease time spent on operations and are able to manage more clients and AUM while keeping hours spent on client service consistent. Furthermore, the desire to hire for specialized roles often grows as firms get larger; at firms with over $1B in AUM, for example, there is a significant increase in the number of Business Development, Marketing, Technology, and Human Resources professionals. Many firms also strive to identify competencies that will complement their existing organizational structure. Strategically evaluating their existing competencies helps firms identify potential gaps and clarify preferred characteristics of an ideal recruit before an opportunity even exists.

Once firms identify these competencies, they focus on developing and communicating an employee value proposition

Advisors have maintained client service levels while increasing productivity



Median results for all firms with $250 million or more in AUM from the 2015 and 2019 RIA Benchmarking Study from Charles Schwab. Past performance is not an indicator of future results.

(EVP)—the benefit and value that employees gain in return for working at a firm—that differentiates them from the competition. With firms increasingly hiring talent away from other RIAs, it is important to create an effective EVP that states both what employees can expect from working at a firm and what firm owners can expect in return. A thoughtful, well-executed EVP is not a single action but rather an assembly of experiences, emotions, and interactions. It addresses questions like:

- Why would working at your firm be professionally and emotionally meaningful?
- How does the firm invest in career growth and future opportunities for its employees?
- Why is the culture at this firm special?

The power of an effective EVP is twofold. A firm with a compelling EVP tends not only to attract more top talent who share in the firm's values and vision, but also to motivate and retain existing talent. The EVP becomes a powerful tool to reinforce the firm's vision, culture, work practices, management style, and growth, and it inspires employees to come to work each day.

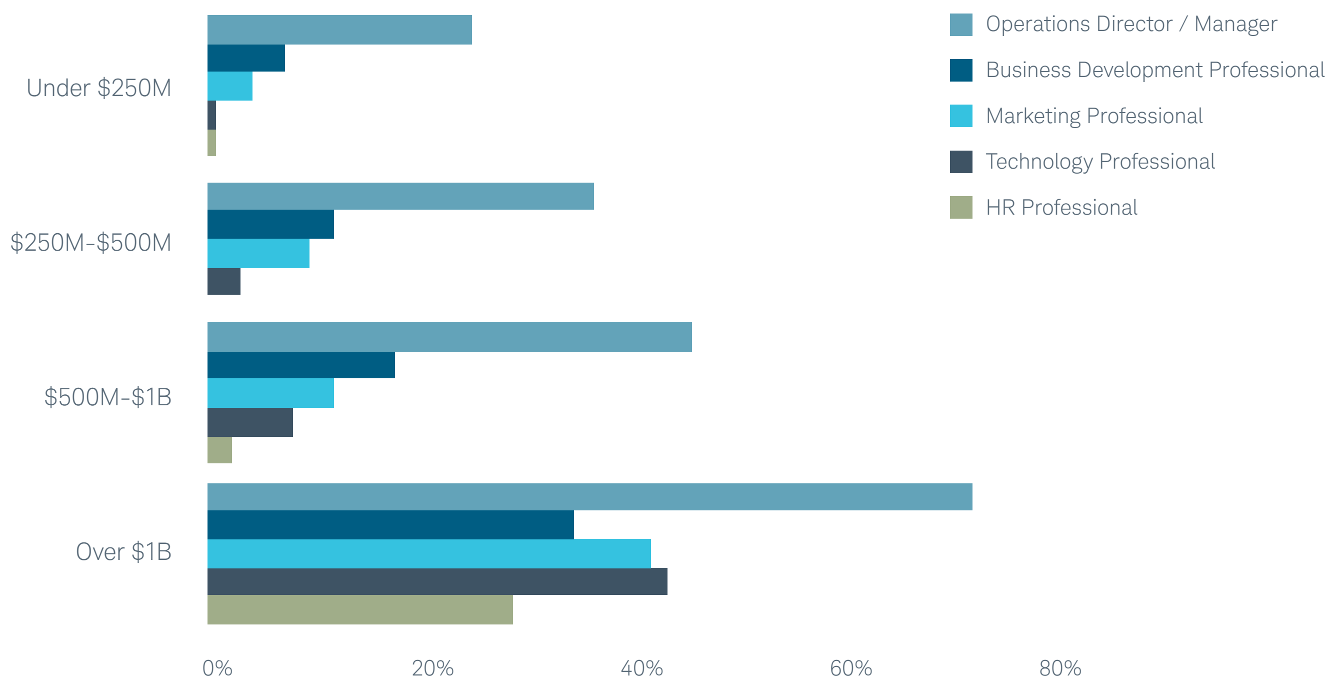
From here, a firm can develop a thorough job description that details accountabilities, qualifications, and reporting relationships of a position, and serves as an opportunity to appeal to applicants whose skills and experience are the best fit for a firm's culture. Poorly written job descriptions may lead to mismatched hires, promote unclear expectations, and deter qualified candidates from applying. Well-written descriptions, on the other hand, can attract a large number of qualified applicants and increase a firm's odds of identifying and hiring the best candidate for the position.

Explore a library of sample job descriptions

The best candidate for the position, however, may not necessarily come from traditional sources such as within a firm or through the acquisition of another firm, but may come from other means such as adjacent professions like

As firms grow, they often add more specialized roles

Specialized roles
% of firms



Results for all firms from the compensation portion of the 2019 RIA Benchmarking Study from Charles Schwab.

accounting or insurance. Further, firms are increasingly looking to other fields such as communications, marketing, client service, and technology for viable candidates and advisors are recruiting from multiple channels such as colleges and universities, banks, wirehouses, and even other RIAs. Many advisors also maintain a presence in local and national professional organizations, such as the Financial Planning Association and the Society of Financial Service Professionals, as a source for future recruits. These firms leverage an array of resources to build a pool of potential candidates that helps them to identify the right people when the opportunity arises.

> "We look not only for technical skills but personal skills, looking for someone who has the ability to be trained, someone who we think can fit in nicely with the team and be a good team player. We're looking for long-term mindset, people who want to be part of the client experience for a very long time."
>
> **John Valentini**
> Chief Operations Officer, Chief Compliance Officer
> Altfest Personal Wealth Management

Talent development and retention

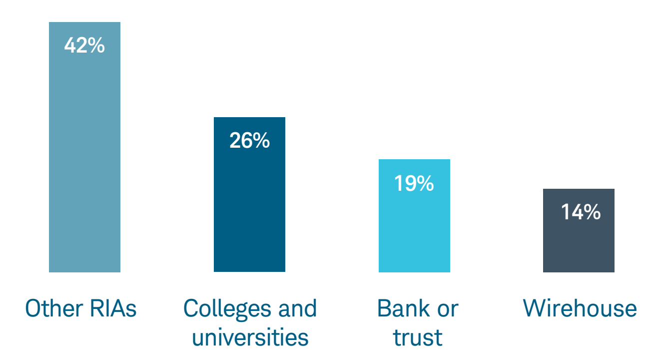
With 42% of firms indicating that they intend to recruit new staff from other firms, it is important to have a strategy to develop and retain key talent. Top-performing firms incorporate talent development into their human capital strategy and effectively and efficiently manage professional development and employee performance with clear and meaningful career paths—a progression of increasing skills, responsibilities, and contributions.

Having clearly defined career paths helps to incentivize employees and provide them with long-term opportunities. Many firms develop career paths for their relationship management roles first, and then conclude that they need to do the same for their operational teams. A career path takes an employee from one job level to another and exposes that person to new challenges, promotes his or her status in the firm, and can correspondingly increase their potential for higher compensation. While career paths are unique to each firm, effective plans articulate the positions or levels within a position that an employee can pursue, the responsibilities of each position and job level, the necessary skills and experience needed to be successful in that position, and the milestones that a person has to achieve in order to be considered for the next level. As an example, the career path of an advisory role within a firm tends to develop along a continuum where they progress to new roles within the firm upon reaching specific milestones and becoming proficient with necessary skill sets.

Clearly defined career paths help set expectations when recruiting young talent—they want to see how the firm is planning to invest in their growth and development and what milestones can lead to the next professional level. By creating talent development plans for team members, leaders are also able to identify employees who are best suited to take on more responsibility and leadership as the firm grows.

Many firms with a dedicated talent strategy are also conscious of managing staff performance. Leveraging tools such as tying compensation to career development and regular performance reviews, firms are able to maintain high employee retention and realize a greater return on investment for the firm with regard to staff. These firms conduct performance evaluations across a wider breadth of personnel categories and maintain that the evaluation process should accurately measure performance with clear feedback to employees regarding expected and exceptional behavior.

Firms recruit from multiple channels



Percentage of all firms with $250 million or more in AUM that selected each response from the 2019 RIA Benchmarking Study from Charles Schwab.

Hypothetical career path of an advisory role within a firm

	Client Services Associate	Client Account Manager / Relationship Manager	Senior Client Account Manager / Relationship Manager	Managing Partner
	$62K Total cash compensation (including owner profit distributions)	**$104K**	**$231K**	**$450K**
Responsibilities	Provides non-advice-related support to clients, including preparing standard client reports, maintaining contact with clients to provide or obtain updated information, scheduling client meetings, and responding to administrative client queries.	Manages existing client relationships, either working with a principal or more experienced advisor, or on their own. Provides client service management, often to small and midsize accounts, assists senior professionals in conducting client meetings, and resolves basic and routine client account issues.	Primary manager of existing client relationships, particularly more complex relationships. Formulates and implements advice but may rely on technical specialists to develop recommendations within an individuals specialist's area of expertise. Often works with, trains, and supervises other staff in client service industry.	Owner and principal of firm, with broad responsibilities for business development, client relationships, service, and management. Develops new business, manages relationships, provides advice, or services clients. Has shared responsibility of strategic leadership, planning, and broad executive management decisions to achieve firm's objectives.

Progression of skills

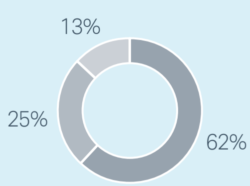
- **Technical skills**
- **Project management**
- **Emotional intelligence, coaching, mentoring, and networking**
- **Relationship management**
- **Firm and people management**
- **Business development**
  - Masters the firm's ideal client persona
  - Articulates the firm's origin story and value proposition
  - Builds new business through client and professional referrals
  - Consistently closes new business

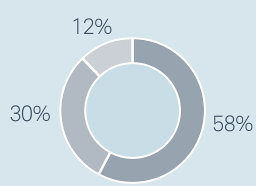
Milestones

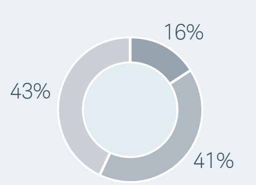
	Client Services Associate	Client Account Manager / Relationship Manager	Senior Client Account Manager / Relationship Manager	Managing Partner
Designations	5% are CFPs	51% are CFPs 7% are CPAs	60% are CFPs 15% are CPAs	50% are CFPs 16% are CPAs

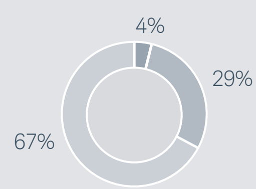
Years of experience

- <10 years
- 10–19 years
- 20+ years









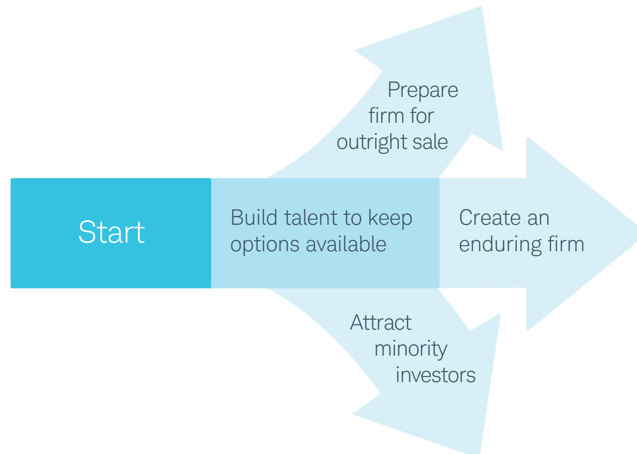
Results for compensation, designations, and years of experience represent all firms from the compensation portion of the 2019 RIA Benchmarking Study from Charles Schwab. Compensation data represents the median results for each role.

Succession planning

Establishing a succession strategy is central to a firm's business continuity plan and key to building a long-lasting, growing business. A succession plan can serve as a blueprint for selling or transitioning ownership of a firm to other partners or employees, and it limits business risks while protecting—and often increasing—the value of the firm. It has clear benefits for the firm, its clients, employees, and current and future owners. For example, a viable succession plan provides clients with confidence that they will be taken care of after an owner exits the business. Even if the current leaders aren't nearing retirement, succession planning sets clear expectations with clients—and employees—that the founding owners are thinking about the longevity of the firm.

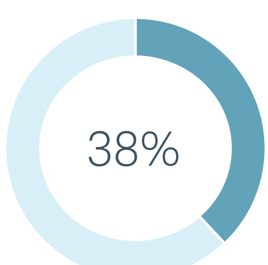
Additionally, because many founders wish to transfer ownership to insiders rather than transfer control and ownership to third parties, they often develop one or more internal successors. Ninety-two percent of firms are considering internal succession, compared to 24% of firms considering recruiting an external successor. Internal succession is understandably popular because it gives firm owners more control, often results in less change for firms and their clients during the transition, and demonstrates that founders and principals are prioritizing their clients' well-being and taking the necessary actions to protect their interests. In turn, clients have a sense of security and confidence that the firm will continue to look after their interests long after an owner has left the business. For employees, a plan for succession that transitions individuals toward greater responsibility and opportunities, including ownership, will help retain key team members and ensure their continued commitment to the firm's success. Even if a firm is sold entirely or partially in the future, having a strong second- or third-generation leadership team in place helps to increase the value of a firm.

What path aligns with your vision?

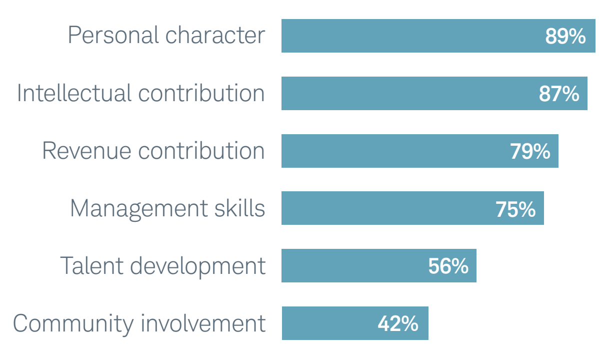


A documented path to partnership can smooth the leadership transition and sustain the firm's values and vision

Documented path to partnership



Path to partnership criteria



Results for all firms with $250 million or more in AUM from the 2019 RIA Benchmarking Study from Charles Schwab.

A key component of a successful succession plan, however, is to document what the path to partnership may look like. Indeed, 38% of firms have a documented path to partnership that helps to make for a smoother leadership transition when the time comes, and also reflects the firm's values and vision and defined expectations between current and future leaders. An effective transition document tends to include a development plan for the employee transitioning to leadership, an equitable compensation structure that reflects new responsibilities, and specific criteria that are needed to obtain a path to partnership. The RIA Benchmarking Study indicates that personal character such as integrity, ethical standards, and honesty are meaningful traits for a future leader to possess, along with intellectual contribution to firm strategies and processes.

> I have more amazing, talented people approaching me than I can house because of our equity opportunities. If you sit on your equity, your best people are probably looking around, because at some point, if they cannot participate, they're thinking, 'How do I go somewhere where I have that opportunity?'"

Greg Friedman
Founder and Chief Executive Officer
Private Ocean

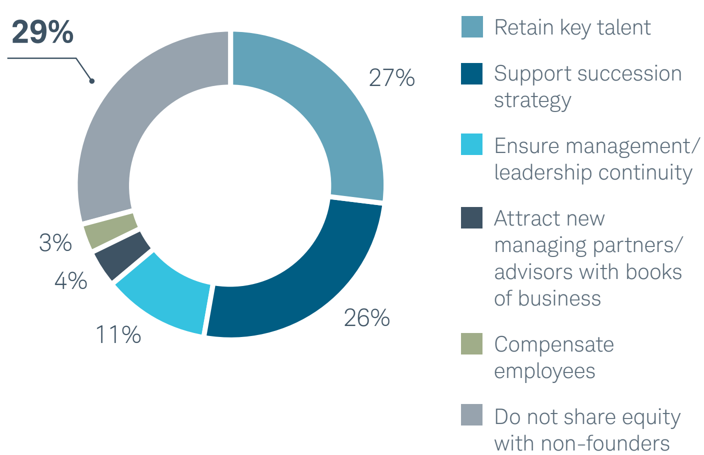
Another important element of an effective succession plan is the chance to earn equity ownership within a firm. And, while the opportunity to own equity is often intended to support a variety of strategies—for example, some firms wish to share equity to ensure management or leadership continuity—it may not occur as soon as new talent joins a firm. Rather, leaders may use equity to attract and retain top-performing individuals who have a strong sense of entrepreneurship and who understand the impact they can have on the firm's growth over the long term. Expanding ownership through equity also rewards the commitment of high-performing individuals, making it harder for competing firms to disrupt a succession strategy by recruiting away key talent. According to the RIA Benchmarking Study, 73% of firms with AUM of $250 million or more that recruit from other RIAs offer non-founders the opportunity to own equity. Whether advisors are looking to incentivize across the firm by offering equity to everyone or following the more traditional path of providing access only to those who have been identified as future leaders, equity is a valuable tool to retain top talent and lay a foundation for succession.[6]

While a succession plan is imperative to a firm's legacy, many firms still do not have a plan in place—documented or undocumented—and many firms don't believe they have acquired the right talent yet. Absent a plan, firms facing an untimely leadership void may be forced to consider a merger or acquisition situation. A thoughtful approach to this exercise can lead to a smooth transition as relationships are kept intact, services are virtually unaffected, and the firm's core purpose for existing is upheld.

For more information on equity ownership, read our *Expanding ownership* GPS Insight Paper

Firms are sharing equity to retain talent and support their succession strategy

Primary reason for sharing equity
% of firms



Percentage of all firms with $250 million or more in AUM that selected each response from the 2019 RIA Benchmarking Study from Charles Schwab.

Conclusion

Creating a cycle of opportunity does not happen instantaneously. Rather, it involves a myriad of decisions, each of which requires time, resources, and the willingness to take action. However, creating an enduring firm starts with the firm's most important asset: its people. Successful firms know that people are their most important asset and create a cycle of opportunity to attract and retain top talent, helping to ensure the continuity of their firm's people, culture, and values as they prepare for the future. They understand that having a high-performing and diverse team, unlocking their potential, and rewarding and developing the next generation of leadership is a long-term commitment that is critical to building a legacy. Firm owners willing to invest not only in their clients, but also in their employees, will see a significant return on that investment—in the short term and for many years to come.

Explore our Talent Resource Center

Build an enduring firm with useful insights and actionable tools to evolve your firm's talent strategy.

Visit
advisorservices.schwab.com/talent

Additional Resources

2019 Benchmarking Study compensation GPS Paper

Expanding ownership GPS Insight Paper

Sample job descriptions

[1] Building an Effective Organizational Structure, Schwab MKT

[2] 2019 RIA Benchmarking Study from Charles Schwab

[3] 2019 RIA Benchmarking Study from Charles Schwab, Compensation Study

[4] Expanding ownership: Leveraging firm equity to maximize talent and accelerate growth

[5] 2019 RIA Benchmarking Study from Charles Schwab

[6] Expanding ownership: Leveraging firm equity to maximize talent and accelerate growth

About the 2019 RIA Benchmarking Study from Charles Schwab
Schwab designed the RIA Benchmarking Study to capture RIA industry insights based on study responses from individual firms. The 2019 study provides information on such topics as asset and revenue growth, sources of new clients, products and pricing, staffing, compensation, marketing, technology, and financial performance. Fielded between January and March 2019, the study contains self-reported data from 1,310 firms that custody their assets with Schwab Advisor Services™ and represent $1.1 trillion in AUM, making it the leading study in the RIA industry. The self-reported information provided by individual advisory firms was not independently verified. Since the inception of the study in 2006, more than 3,600 firms have participated, with many repeat participants. Participant firms represent various sizes and business models. They are categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups—by AUM size. 984 firms completed the compensation portion of the study. Unless otherwise noted, study results are for all firms with the $250 million or more in AUM, representing the vast majority of total assets managed by 2019 participants.

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