3 WAYS TO IMPROVE

EMPLOYEE RETENTION

Support firm growth with the right compensation, benefits and culture.

"Firm owners need to take a holistic look at what they offer employees and structure those offerings in a way that attracts and retains employees while controlling costs."

– Diana Keary, NPH

Human capital costs account for 75 percent of an advisory firm's expenses, according to the *2015 FA Insight Study of Advisory Firms: People and Pay*. In addition to being a significant expense, human capital is, for many advisory firms, a key differentiator as well.

Today, firms are bringing on additional employees to fuel continued growth. The typical advisory firm jumped from 6.0 to 6.8 full-time employees during 2014, with firm owners anticipating continued growth, says FA Insight.

However, 26 percent of staff say they plan on leaving their firms in the next two years, according to the *2015 Trends in Adviser Compensation and Benefits* study conducted by the Financial Planning Association (FPA) and Research and Practice Institute (RPI).

While the impact of losing one-quarter of your staff is considerable, even losing a single key employee can stunt firm growth, negatively affect client service and cost firm owners in several ways.

First, without talented and productive employees, advisory firms will struggle to grow. Second, employee turnover is expensive. Studies from the Society for Human Resource Management (SHRM) and the American Management Association (AMA) estimate that hiring and training new employees costs 100 to 300 percent of the base salary of the replaced employee. Entry-level, unskilled positions are at the lower level of that range, and professionals such as financial advisors are at the higher end.

Third, there is an advisor talent shortage. Considering the high average age of financial advisors, many will likely retire in the next decade of so. But the talent pipeline is lean, meaning that advisory firms that need to add experienced advisors to replace aging advisors may find it difficult to attract the talent they need. Those firms that are already grooming junior advisors in their 20s and 30s will need to work hard to retain those successors.

An advisor responding to the *Financial Planning 2015 Advisor Compensation* survey simply states, "Employee retention is key to firm profitability."

COMPONENTS OF EMPLOYEE RETENTION

When advisory firm owners think about employee retention, they typically first consider salary as a key component as to whether or not an employee stays with the firm.

While it's true that competitive compensation plays a role in employee retention, it's certainly not the only factor. "In many cases, employee benefits and firm culture can also have a significant impact on whether or not a talented employee remains with your firm," says Diana Keary, Vice President and Marketing/Practice Management Consultant at National Planning Holdings. "Firm owners need to take a holistic look at what they offer employees and structure those offerings in a way that attracts and retains employees while controlling costs."

Keary recommends the following best practices surrounding compensation, benefits and culture to help you attract and retain the employees you need to continue to grow your firm.

COMPENSATION: THINKING BEYOND SALARY

According to FPA and RPI, only 26 percent of advisory firm employees are very satisfied with their compensation. Keary agrees that few firms are acutely aware of what it takes to structure a competitive compensation program.

"Many firms prefer to hire and train entry-level employees rather than pay for experience in an effort to manage costs," she explains. But she warns that on-the-job training is very time intensive for firm owners and can end up costing more in the long run. And, if there is no plan to increase compensation over time, once the employee is proficient at his or her job responsibilities, he or she – now well trained – may leave for a competitor.

Keary recommends that advisory firms consult compensation benchmark data from firms such as FA Insight that provide salary ranges by geography. Peer study groups are another source of valuable compensation information.

If, after doing your homework, you find that the salary compensation benchmark is more than you are willing – or able – to pay, Keary suggests offering an employee a beginning salary and clearly defining future earnings potential. "Let employees know upfront specifically what they need to do to increase their pay and when a pay increase will happen," she says. "It's critical to level set expectations."

51%

Firm owners express trepidation in how to structure an incentive plan program.[1]

6 MOST COMMON ADVISORY FIRM BENEFITS:

- Paid vacation time
- Health insurance
- Paid sick time
- Licensing/ exam fees
- 401(k) plans
- Financial support for professional development

Many advisory firms are turning to incentive or variable pay as one way to increase compensation. However, even though firms may be interested in incentive pay, FA Insight's study finds that 51 percent of firm owners express trepidation in how to structure an incentive plan program.

Of the firms that offer it, 63 percent base incentive pay on new revenue, 56 percent on new assets, and 32 percent on client satisfaction, says FPA and RPI. But no matter how you structure incentive pay, set measurable parameters for the pay. "If you have a bonus structure, it is best to tie it to something tangible," says Keary.

Although some firms prefer a profit sharing model that rewards all employees based on achieving firm goals, Keary advises using a combination of firm-related and individual-related objectives to drive incentive pay.

Each type of goal setting is important. Firm performance goals help employees see the big picture and work toward a common goal. Individual goals demonstrate how an employee's contribution impacts the firm.

For individual goals, Keary recommends setting goals based on performance or completion of a project. "Especially for an advisor transitioning into your business, it's important to set clear individual bonus targets in addition to firm performance to motivate new advisors to do their best."

Whatever compensation structure you decide to use, ensure that it motivates and incents employees to accomplish your firm's goals and objectives. Link pay to performance, and tie performance back to your strategic plan.

BENEFITS: DELIVERING WHAT EMPLOYEES WANT

Even though 77 percent of advisory firms offer some form of benefits package, just 27 percent of firm employees are very satisfied with their benefits plan, according to FPA and RPI. But a benefit plan can be a powerful employee retention tool. "Not everyone is motivated by money," notes Keary. "Some employees are motivated by benefits such as time off or flexible work environments."

Today, a one-size-fits-all benefits program is not as attractive as a plan that offers flexible options. For example, millennials often express a higher than average interest in work/life balance, says Keary. To appeal to this group, you might offer benefits that include flexible work schedules.

Providing access to voluntary benefits, paid for by the employee, offers another level of flexibility, allowing employees to customize their benefits from a menu of options without increasing costs for the firm. Millennials typically have fewer health issues than older employees, and are attracted to high deductible health plans (HDHP) that allow them to maximize their take-home pay. Another benefit attractive to all employees is employer-funded health savings accounts (HSA).

To structure an appropriate benefits plan that complies with federal and state regulations, Keary recommends consulting with a human relations specialist.

CULTURE: LEADING FIRM GROWTH

Once a firm owner begins to grow past about $25 million in assets under management, he or she will typically hire an employee to help them manage tasks they no longer have time for, such as running the back office, answering the phone and emails, and managing compliance tasks.

Those firm owners who wait until they are buried with work before hiring an employee might tend to take a haphazard approach to hiring. "Hiring strategically by thinking about the skill sets the firm needs is critical to fueling future firm growth," says Keary.

While the rushed hire may serve as a band-aid, an employee who doesn't fit into an overall human capital strategy may be less efficient, have lower productivity, and even cause organizational dysfunction and cultural conflict.

"Once you hire your first employee, you are no longer simply a business owner. You are a leader," Keary stresses. "The actions you take and the things you say have a direct effect on how employees treat clients, their productivity and whether or not they stay with the firm."

To become even more effective, Keary recommends spending time honing leadership skills by reading books, attending seminars and utilizing resources from organizations such as the Center for Creative Leadership (CCL.org). Tools such as personality profiles, like DISC or Myers-Briggs, help you understand your leadership preferences and how to work more effectively with employees who may not share the same communication and learning traits, notes Keary.

"Having a strategic hiring plan and strong leadership will allow the firm to get to the next level of production or other stated goals," says Keary.

A strategic hiring plan includes assessing current staffing, creating job descriptions, and possibly realigning job roles and responsibilities of existing employees based on skills and interests.

100–300% OF BASE SALARY

Cost to replace an employee who leaves.

Unfortunately, less than half of advisory firms have documented job descriptions and just 19 percent have a documented plan for their future structure, according to FA Insights.

Other critical aspects of creating a firm culture that improve employee retention are performance reviews and career paths, both of which make the hiring process easier and provide employees with clear expectations. "Performance reviews and a career path allow you to effectively communicate where employees stand today and future expectations," says Keary. "Advisors often believe that employees intuitively understand expectations, but in reality they don't unless they're clearly stated."

27%

Employees are satisfied with their benefits plan.

Younger employees in particular may have difficulty adjusting to the expectations of working in a highly regulated industry. "Next generation employees may need additional guidance to understand the processes and structure of this industry," says Keary. "Be sure to spend time upfront with them to get them comfortable with navigating through the compliance procedures that will be paramount to their job responsibilities."

THE FULL PACKAGE ALLOWS SUCCESS IN RETENTION

In order to retain the employees that your firm needs to achieve its goals and objectives, determine what resources and competencies will be required at each level and area of your organization. Then think about how you will encourage and motivate these employees to support your firm's strategies. The best outcomes are the result of communication, setting clear expectations, and having a formal, strategic hiring plan, says Keary.

Remember that compensation, while important, is just part of the employee retention puzzle. Design your benefits offerings based on what employees value and be prepared to offer innovative solutions such as time off, high deductible health plans and voluntary benefits.

Finally, make sure your firm culture supports employee retention. Setting expectations for job performance and responsibilities, clear career paths, and improving your own leadership skills will go a long way in ensuring that your firm is one that attracts – and keeps – the employee talent you need to grow your firm.

When you hire an employee, you become a leader of the goals and vision for the company and a caretaker of the firm culture.

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[1] 2015 FA Insight Study of Advisory Firms: People and Pay.

[2] Bank Insurance & Securities Association (BISA) Technology Innovation Award, 2014.

[3] Denise Southwood and Ellie Zhu, "How the Biggest Independent Broker-Dealer Networks Stack Up: Ranking Five Big IBD Networks by Reps and Revenue," Investment News, May 1, 2015.

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