

## Succession Template

By Bob Veres

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*What can you learn from one of the most thoughtful and deliberate succession transitions that has been executed in the advisor space?*

There's a pair of graphics on the next page, from what may have been the best presentation to date on succession planning that the profession has ever seen. Together, they define one of the biggest sticking points that most advisory firms never get over as they contemplate succession, and also point toward the solution, right there in graphical form.

The presentation, at the 2018 Insider's Forum conference in San Diego, featured Roy Ballentine, founder of Ballentine Partners, and Drew McMorrow, the successor who took over as president and CEO of the firm located in Wolfeboro, NH, Waltham, MA and most recently Palm Beach Gardens, FL. McMorrow was actually only part of the succession process. Over the years, the company has installed Will Braman as the firm's chief investment officer; Coventry Edwards-Pitt as the director of financial planning; Anja Saloranta as chief operating officer and Claudia Shilo was installed as chief financial officer.

All are now partners of the firm. Seven of the firm's ten senior client advisors and six of the eight senior investment advisors are also partners.

The fact that multiple people took over multiple roles once held by Ballentine himself is part of the appeal of the graphics. The top graphic shows the typical decision overlap for advisory firms: the founder is involved in most of the decisions (governance), handles most of the meaningful chores (operations) and is the dominant shareholder (ownership). In many succession plans, the founder is looking for a way to reproduce the top slide, searching for a clone of him/

herself who will fit neatly into that same tri-dominant role. But the second graphic shows the real key to a successful succession, where successors are involved in governance, operations and ownership without dominating any of them.

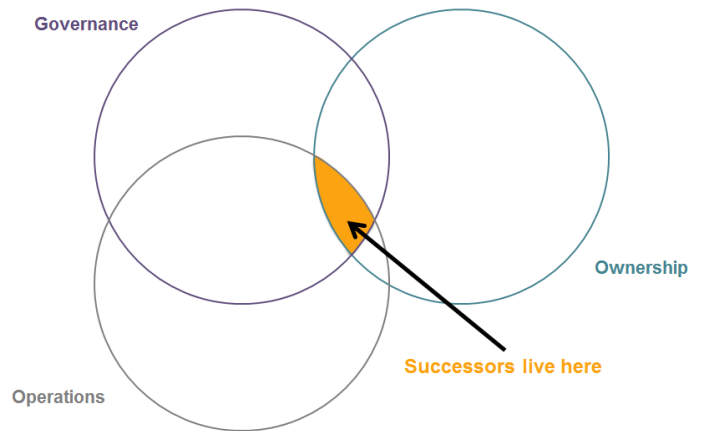
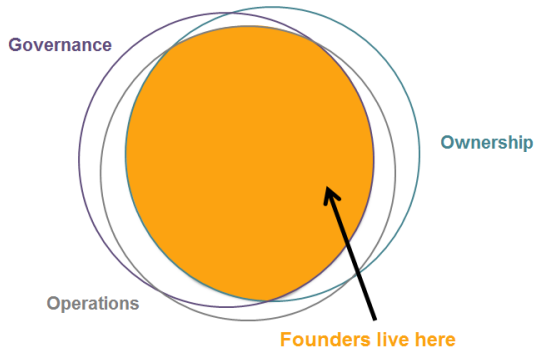
"The world I grew up in as a founder was that you had to have an owner/manager—that is, one person who would replace me," says Ballentine. "Before we could make our own succession work, I needed to shift my thinking away from that.

"When I was thinking about how to proceed in my own succession process," he adds, I realized that separating ownership and governance could be liberating. It meant that all I had to do was focus on who would take over the day-to-day management of the firm, as one set of problems, and as a second set of problems, figure out what the right ownership structure of the firm would look like, that would support the firm's long-term independence. Bifurcating those," he continues, "made it easier for me to plan going forward."

### *Succession options*

In the presentation, Ballentine and McMorrow stated an obvious fact that may not be so obvious to many advisors who are struggling with the succession issue: one way or another, the succession issue will be solved. The only two questions are:

- 1) Who will solve it—you or the people managing your estate? And:
- 2) In what manner will it be solved?



You can simplify this still further by noting that there are actually only four choices for succession:

- 1) Promote someone from within.
- 2) Hire from the outside.
- 3) Sell your firm to an outside buyer.
- 4) Liquidate your firm.

But later in the presentation, another possibility presented itself: a slow deterioration is also possible, as clients began to question the stability of your professional structure. Ballentine notes that one of the reasons he began the formal succession process, in 2010, was that he was starting to get persistent questions from clients and prospects about the future leadership and ownership of the firm. “It became clear that we needed to be able to provide concrete answers,” he says.

*Avoiding a crisis*

The Ballentine Partners succession process actually began long before Ballentine started handing over the reins. This is a crucial point: if the founding advisor waits until there is a need to do succession planning, it will already be too late. “We believe that to do a really good job of succession planning, you need to have at least 10 years to work with,” says Ballentine. “A lot of folks think this is a one- to three-year process. But that shorter time frame only applies if—and only if—you’ve already succeeded in either establishing a track record of growing strong leaders within the firm, or demonstrated success in recruiting leaders from the outside. If you wait until the need is upon you and

then your succession plan fails, you may find yourself dealing with a crisis.” Recovering from a succession planning failure, he says (and Ballentine has experienced two of them before the successful one described here) takes at least two to three years.

“In one version of this story,” Ballentine adds, “I began the succession process over a decade prior to 2010,” he says, referring to his staff recruiting and internal training activities. “In another version, it began a few years before the actual implementation in 2010, when I started doing research and started laying out the plan.”

The presentation recommended that advisors lay a foundation over a decade or more, by hiring ambitious, entrepreneurial people in the firm, have programs and processes in place to develop their leadership skills—and perhaps most importantly, to encourage these employees to practice making risky decisions in the face of uncertainty.

“Some people will have more of an appetite for it than others,” says Ballentine. “Your team members who are able to function well in an environment that requires making decisions in the face of uncertainty are probably your best candidates to succeed in senior leadership positions, including CEO.”

*Succession template*

Once he had recruited and trained a senior staff that was ready to assume additional responsibility, Ballentine began a methodical process that would ultimately allow him to hand over the management of

the firm—a template methodology that others could adopt for their own succession plans.

He started by listing, in writing, the desired traits of a successor. Simply put, the ideal successor would be an investment professional, super salesperson, charismatic leader, excellent manager and wealth planning professional.

Really? McMorrow admits that it's not likely that founders will find somebody—on staff or from the outside—who is highly skilled in all these areas. "You have to decide which ones are most important to have strengths in, and that is going to vary by the type of organization and what its value proposition is," he says.

But he adds that it's important that any viable successor cannot be a one-trick pony who is excellent at closing business but doesn't really 'get' modern portfolio theory or the nuances of an ethical will. The firm's next leader has to have to have decent skills in all of the aforementioned areas. "At some point," says McMorrow, "the person running the firm is going to have to interject himself into the sales process, and the investment process and the financial planning process, to assert leadership and set direction."

He compares the selection methodology to buying a house, where you might not get everything you want, but you're ultimately comfortable that your most important bases are covered.

"The one thing you don't want to compromise on is character," says McMorrow. It's crucial to select a candidate who will mesh with your firm's culture and values. You can teach technical and business development skills, but Ballentine notes that by the time a person reaches adulthood, character has been formed and is not likely to change.

What cultural values are we talking about? Ballentine Partners' key character traits include adhering to the highest ethical standards in all aspects of the work, always telling the truth, putting clients first, no product sales, keeping all promises made, constantly developing expertise, defending and protecting the confidentiality of clients, and treating everyone—

including colleagues, clients, competitors and everyone else—with respect.

Step two in the process was to clearly identify the overall succession planning goals. He wanted the firm to remain independent. He wanted the employee group to retain majority ownership and control, and retain all senior team members. He wanted to empower and motivate the next generation of leaders, position the firm for the next phase of growth, and identify staff leadership that would reaffirm the firm's core values.

Retaining the senior staff members represented a significant challenge. There were at least four people that Ballentine could imagine leading the firm. If he elevated one of them to the CEO position, one or all of the others might leave the firm. (In fact, none actually did.)

Step three? Ballentine prepared a list of key questions that he had to answer before the transition could get underway. It started with some honest soul-searching. Was he really ready to make room for new leaders? Would the selection of a new CEO be a competitive or collaborative selection process among the key employees? Would it be possible to structure this process in a way that would prevent the outcome from creating a winner—and thereby cause other key staff members to feel they had lost? Would he interview both internal and external candidates?

Ballentine's preferred solution was to promote from within, but that may not be possible at every firm. Many planning firms, he says, inadvertently stifle leadership development in their employees, so that when the time comes for someone to step up, there is no viable successor. Meanwhile, hiring someone from the outside runs the risk that the new CEO will not mesh well with your culture. "That," Ballentine notes, "risks causing a lot of damage to your firm's staff and client relationships. And remember," he adds, "if you terminate a senior officer, you're required to put that information on the front page of your next ADV filing."

In the end, Ballentine opted for a "mostly open" process that was simultaneously competitive and

collaborative. He announced to the entire firm what he was doing and why, and made himself open to answering questions about it. He set criteria for how candidates would be evaluated, and gave each candidate access to all the evaluation data about him/herself, but not access to evaluation data about the other candidates.

“There is no right or wrong process,” says Ballentine. “You need to think about your options and determine what will work best for you and your firm.” He adds that making that announcement to the entire firm was a bit like landing on a foreign shore and then burning your boat on the beach. “There is no turning back,” he says. “You’d better be prepared to see the process through.”

#### *Successful outcome*

Ballentine divides the full succession process into two stages. The preparation stage took six months, and included reading and research into best practices for succession planning, the process of defining the goals and process in advance, envisioning the new organizational structure, defining the attributes required of the next CEO, the initial announcement and meeting with senior staff, and in-depth internal interviews with senior staff.

The execution stage, which lasted 6-8 months, included an assessment of the candidates and feedback of those results, coaching team members to resolve interpersonal issues, building consensus, and making the selection. The succession did not actually happen at this stage, but the last part of it was to plan the implementation of the actual succession.

The interviews and assessment process identified McMorrow as the leading candidate. By that time, he had been with the firm for 16 years, having previously worked as an economist at the Congressional Budget Office before getting his MBA and working at Oracle under that firm’s CFO. Ballentine shared the choice with the entire senior team and encouraged them to have one-on-one discussions with McMorrow about the relationship each of them would have with him,

and how he would need to evolve in order for them to be happy about his being in the CEO role.

Ballentine helped team members prepare for their discussions with McMorrow, but also made it clear that he would not get in the middle of any relationships. This, McMorrow says, proved to be crucial to the successful outcome. “This is probably the step that allowed us to retain all of our senior team members,” he says.

McMorrow assumed the president position in October 2012, and was named CEO in December 2015.

From the successor’s perspective, this is never a smooth process. “I would describe the first year or two after taking on the role as some of the toughest years of my life, to be honest,” says McMorrow. “First, I was being promoted above a lot of other worthy people. And second,” he says, “there are many high-caliber professionals here who are independent thinkers, who all joined to be under Roy’s leadership—and not necessarily mine.”

His solution to gradually earning the trust of the senior staff is good advice for any would-be successor. “I tried to bring more consensus to the decision-making process,” says McMorrow. “And my best advice to others is to give it time,” he adds. “It took a while before I felt confident in my role, before I felt like I was seen as the leader. Anybody going through this should try to be okay with that, and to gradually assert, rather than immediately assert. The succession actually takes time, no matter how or when it is named and titled.”

The process was made a lot easier after Ballentine and McMorrow drew up an explicit agreement about roles and responsibilities, and in that agreement, Ballentine had only one direct report: McMorrow.

But in the presentation, Ballentine acknowledged that after having been in full charge for 27 years, it was challenging to suddenly stop being the chief decision-maker. McMorrow says that in the transition months, Ballentine did not, publicly or otherwise, undermine his authority, or allow staff to go to Ballentine’s office for decisions. “Roy did a very good job of channeling

decisions toward me,” he says. “If he ever did get ended-around by someone successfully, he was always very apologetic and willing to help with backtracking.”

A bridge was crossed when McMorrow asked Ballentine not to attend the 2012 year-end planning session. “I believed it would help our team members get accustomed to his not being in charge,” says McMorrow. “And it worked.”

### *Takeaways*

There were some important lessons and takeaways from the experience that might be helpful to others who are contemplating thorny succession issues. First, everybody needs to take a deep breath and realize that the entire staff is going to have to invest significant time in the process. But at the same time, allowing all senior team members to participate in the assessment and review process created multiple growth opportunities. Ballentine notes that the feedback of the assessment results had a powerful impact on the participants, with both positive and negative reactions.

His advice: in addition to all your other duties, be prepared to work with your team members and help them process the feedback in a constructive manner.

From the founder’s perspective, ask yourself why you want to go through the trauma of a succession planning process, and whether anyone else wants the responsibility. Will you be able to trust anyone else with the responsibility?

Beyond that, suppose the plan is executed successfully. What are you going to do with yourself in the aftermath? Should you remain involved, and if so, what will be your new role? Do you fear losing power and prestige, or being pushed out of your company?

And if you remain involved, what if you become a problem for the new leadership structure? Will your team members speak up? What are the consequences if they do not? If they do, will you respond constructively?

Ballentine acknowledges that there were emotional moments, particularly his initial announcement of the process, and the announcement that McMorrow would assume operational control of the firm. Another big one was his agreement to stay away from the 2012 planning session.

“I found it best to control my fears openly,” he says, adding that he talked with his colleagues about his fears, sought their advice, and together they found ways to address his concerns. “A high level of trust is required for the next generation of leaders to provide feedback to the founder, if the founder becomes part of a problem that is blocking the firm’s development and growth,” he says. “If you are the founder, you need to hear that feedback if you want your firm to grow.”

The successor, meanwhile, should understand before the succession process is completed that being your own boss requires an extra element of discipline and planning.

“You’re no longer doing the day-to-day work, which is where you get the satisfaction of getting things done,” McMorrow says. “And recognize that you aren’t going to get the same kind of feedback that you used to get. People are going to tell you what you want to hear, not what you SHOULD be hearing, so you have to be more attuned to what’s going on, and use different signals of peoples’ behavior to understand exactly what is being communicated to you.”

Finally, be hyper-aware of the reluctance to change within any organization. There will be a gravitational effect back to the old order that you have to constantly push back on—including the tendency toward getting drawn back into your old job.

In the aftermath, Ballentine received a surprising amount of feedback—and pushback—around the bifurcation between ownership and governance. “I have literally spent hours on the phone with other founders explaining it,” he says. “It turns out a lot of people didn’t understand it. We have owners here in

the firm who manage little or nothing, and we have managers who are not owners, who have significant responsibilities and authority, and that is actually the way things should be. I got a lot of questions and a puzzled response from the audience, because it was not the way most of them had been thinking about those roles.”

You will be reading more, and hearing additional presentations about succession planning. But this one-hour presentation offered what many do not: a lot of

concrete, down-to-earth advice about implementing the succession process and a successful methodology to follow.

Ballentine went through an extremely thoughtful process to get the results he wanted, and managed to take his senior staff to a new level of awareness and productivity in the process. Consider this a strong template for successful succession, and borrow from it as you will.

*Editor's Note: Roy Ballentine will be a featured presenter at the next Insider's Forum conference, September 11-13 in Nashville, TN. Interested parties can register here: <http://www.insidersforum.com>, and get the Inside Information discount (\$150) off the registration fee with the code: 2019INSIDER.*

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