Chapter 1

The Founder as the Sun

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> All truths are easy to understand once they are discovered; the point is to discover them.
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> —*Galileo Galilei*

The gravitational pull of the sun caused the formation of the planets and set their orbits. Though planets are of different sizes and chemical makeup, some orbit quickly, some slowly, and some even appear to move backward. The system formed and remains in existence only because of the sun.

A basic truth—the planets revolve around the sun—took many thousands of years to become a commonly accepted perspective. Geocentrism, which placed the Earth at the center of the universe, dominated human thinking for thousands of years. We now know, of course, that without the sun at the outset no planets would have formed, and without the sun now the planets would drift into oblivion. Many advisory firms seem to operate in a similar manner: They arose and continue to work because of the founder, and without the founder the company

would blow apart. But is what is true and necessary for our solar system the proper model?

The Evolution of a Founder-Centric Firm

It's easy to understand how founder-centric firms developed in the independent advisory space. They are the evolutionary result of the way in which many independent firms had to operate and grow to stay alive. The development trajectory of most independent firms is similar. In many cases, the founders graduated from college or advanced degree programs and landed at large corporations. In their younger years the work was exciting as they learned how to do what they wanted to do and how to sell themselves. Tim fits this profile: "When I was in my late 20s, I was at a large bank. It was exciting because we were part of a largely self-directed team, left to ourselves to figure it out as we went along. Here we were trying to provide financial advisory services to guys my dad's age. But it was exciting, in the early to mid-1970s, to be creating the advisory content and to learn to sell yourself. It was also fun. It was like a fraternity party, but we wore suits and ties."

Many founders fit a certain profile with the following traits: self-motivated, unafraid to ruffle feathers, open to risk, believing there's always a better way of doing things, and having an inner belief that investing in their own success will maximize their return. Look at that list again. Do these look like traits rewarded by most large companies?

As time goes on within many large corporations, entrepreneurial spirit gives way to centralizing control and managing overhead, especially within the reality of the economic cycle. When times get tough, corporations always protect their core businesses. If you aren't in the core channels, you aren't going to be able to command resources—or attention, as Tim lived through. This culture of central priorities and systematic decision making usually serves large corporations well, but tends to thwart new, small, or peripheral ventures. It drives many entrepreneurs to found their own shops.

Tim was frustrated by the obstacles his business was facing in a large accounting firm. Several significant clients asked why his small team wasn't just doing it on their own and even offered to invest behind them.

So, in 1991, Linda Fitz joined Tim in deciding it was time to invest in themselves and go independent as the original Kochis Fitz. The way in which advisory firms were founded is important to understand—and to celebrate—because those roots yield many of the strengths and the challenges the firms encounter in later transitions.

Also in 1991, David Cassady and Bob Schiller founded Cassady Schiller & Associates in Cincinnati, Ohio. In 23 years, the firm has grown from the two founding partners to 60 employees and now includes a wealth management practice. Both founders had spent 11 years at a Big Eight (now Big Four) accounting firm focused on small- and medium-size business and individual clients. They felt as though the model of the bigger firm was getting in the way of serving their clients. The triggering entrepreneurial moment for them was when a new regional partner came to the office and discussed the type of client the firm was going to focus on in the future. Bob explains how they felt that day: "This partner comes to Cincinnati and explains the firm is no longer after the clients paying us $20,000 a year because it wasn't big enough. We were stunned. How could this person not realize this profile represented 70 percent of the office's revenue and basically 100 percent of our practice? David and I realized we were no longer a fit."

The lack of the right home for their clients made it easy to decide to leave. As David puts it: "We knew we could do it better. We wanted to create a family culture in a business, which could stand the test of time, but worked really hard for the betterment of our clients' lives. We didn't start the firm because we wanted to run a business. We wanted the opposite … we wanted to spend more time with our clients." In the beginning, they couldn't afford office space, so they ran the firm out of their cars. At that time, cell phones were extremely expensive. They each had a $900 car phone bill the first month in business. David laughed when we sat down to interview him. Six weeks into the business, he wrecked his car: "We went from two office locations to one." Getting clients had to trump everything else because there were no clients. Each partner did eight sales meetings a day. After a month, they started winning a large amount of business. Things got easier from there.

David describes founding an advisory business as a little like the "wild, wild West." He continues, "When you start a firm, you are just trying to put the fires out. You aren't sitting at your desk thinking about

best practices in operations." One example David describes was their pursuit of office space after a few months in business. They still didn't have any money, so they met with an owner of commercial and residential real estate to look at a few spaces. The guy realized they didn't have any money and suggested they barter for services, as he needed 14 federal Housing and Urban Development (HUD) audits completed. He asked David if the firm could complete the audits, and David said they could do them as a trade for leased office space. As they walked out of the meeting, Bob looked at David and said, "I didn't know you knew anything about HUD audits." "I don't," replied David. "But," he said, "we'll figure it out." They ended up having to hire a specialist, and it cost them more than just renting the office space would have. Bob describes it as a "valuable learning experience."

Throughout this book we highlight firms of all sizes, since most of the transition issues are similar regardless of firm size. The stories about David and Bob are great examples of a partner-founded firm that has grown from two partners to 60 employees. Jeff Thomasson is an example of a founder who has built a mega firm. Oxford Financial, founded in 1981, has grown to be one of the largest independent financial advisory firms in the country. When Jeff started the firm, he had just become one of the youngest graduates of the Indiana University MBA program, at the age of 22. His thesis for graduation was written on the topic of what a great financial firm should look like in the future. He walked off campus already feeling like a seasoned entrepreneur. Part of how he paid his way through college was buying Farrah Fawcett posters in bulk for $2 and selling them to his dorm mates for $5. After graduation, he grabbed a phonebook and started calling banks and business owners.

Jeff believed that if he cold-called as hard as he could for three years, he would never have to do it again. As he reflects on this goal, he feels lucky: "I only had to do it for two years!" Jeff realized he was great at getting an appointment, and he won some early business owners. Banks took notice of his different approach to financial planning, and they didn't see him as a threat. "I was a little guy. I wasn't going to take their trust business, so they sent me referrals." Like David and Bob, Jeff's office was his car. His monthly cell phone bill was $1,000. His stories of the founding also show how different things are today from 1981. "In 1981, cell phones were so rare in Midwest America you looked pretentious if

you had one. You also had a large antenna on your car, so you couldn't hide the fact that you had one. I didn't want the banks to get the wrong idea. I would park down the street and walk to my appointments."

When most independent advisory firms were founded, advice was delivered not through technology, but through the human interaction of the founders and clients. The founder had his or her name on the door. In many instances, very early on, there wasn't the financial ability to hire much help The advice was delivered directly by the founder to the client. There was no need for process and no need for consistency in delivering the service or advice. The founder had to do everything.

Bill Crager, president of Envestnet, tells a funny story about how it feels to go from a big company to running and building your own start-up. He and others decided to leave the comfort of Nuveen to create a new business model in financial services. They finally got office space, and Bill took the lead in ordering the furniture for the office. "I was really happy to have it coming to the office so I could put my computer on something. Having furniture was a major step for our start-up." Bill's excitement turned to laughter when the furniture arrived unassembled. "I remember looking at two interns we had hired and saying, 'Well, I guess we need to find a hammer.' Have you ever tried to find a hammer to buy in downtown New York City?" Bill traipsed around New York and finally found a hammer. He got back to the office and then realized, "Why didn't I buy three? We shared the tool and eventually got it all put together. It's a memory I look back on fondly but not something I want to do again! This 'nobody else is going to do it so I have to' attitude becomes a habit … and, with success, often becomes a source of pride. Many successors simply wouldn't understand."

We examine many different sizes and types of firms and a wide variety of people throughout this book. Although these firms have made different choices as they evolved and are now in many different situations, the founders share consistent experiences and tell similar stories about their early years. These are amazing stories of entrepreneurship, risk, and success. This shared experience even creates a comradery around founding a firm. We call it the "fraternity of founders." Successors can learn from and celebrate this fraternity, but they will never be members. Successors don't have these types of stories. This lack of a common history and set of experiences can cause significant operational and

emotional issues during leadership transitions. It is extremely important for successors and founders to recognize this crucial fact.

Is My Firm Founder-Centric?

One might assume a firm would know whether it was a founder-centered firm. However, many founders and successors are too busy to notice. Or maybe they don't really care.

If you want to determine whether a firm is founder-centric, the first place to look is often the founder's family. They will know the answer.

To confirm or determine whether a firm is founder-centric, we suggest a founder ask him or herself the following four questions:

1. When was the last time I took a week of uninterrupted vacation?
2. Have other members of the staff ever run client meetings?
3. When a bad event happens in a client's life, does the client only call the founder?
4. Do employees have the opportunity to make company decisions, or does everything go through the founder, even, for example, how the company handles a holiday party?

You get the idea; most people can stop at the first question.

Awareness

A successful transition process requires a keen sense of awareness on the part of both the founder and the successor. We studied extensively the way successors and founders can increase their ability to gain insights.

Gary Klein, in his 2013 book, *Seeing What Others Don't: The Remarkable Ways We Gain Insights,* lays out the foundational differences between gaining insight and missing it:

Flawed Beliefs: We can all fall prey to basing our decisions on flawed beliefs. The flawed belief that consumers wanted a new taste in soft drinks led to the disastrous rollout of New Coke in 1985. MySpace's flawed belief that it had created a superior technology platform and a

high barrier for competitive entry led to the dismissal of Facebook as a worthy competitor. Facebook, in March of 2015, sits with a $232 billion market cap, and few people now even remember MySpace. Decca Records' flawed belief that four-piece bands were no longer the future of music led to their refusal to sign the Beatles, the most famous band of all time. Of course, nobody intentionally bases their decisions on beliefs they know to be flawed. Hindsight is always 20/20. The only way to overcome flawed beliefs is to shed light on their shortcomings. We use our research and experience to shed light on some flaws in founder and successor thinking throughout this book. There are three fundamentally flawed beliefs associated with founder-centric firms, which an industry leader described simply as "absolutely wrong."

The first flawed belief of founder-centric firms is "Nobody can run my firm the way I ran it." While, of course, nobody is going to run a firm exactly like the founder, successful firms don't need to be run exactly the same way. There are plenty of successors with more than enough ability to replace founders in the transition of firm management. Their accumulated insights and fresh perspective may make them even better at the task. Philip Palaveev is CEO of the Ensemble Practice LLC, a business management consulting firm focused on the evolution of team-based advisory businesses. He uses this analogy: "Founders not expecting changes to their businesses is a lot like selling your house and expecting the new owners not to remodel it."

The second flawed belief is "The young people can't afford to buy me out or don't want to take the risk to buy me out." If the founder can sell the vision and be reasonable, successors will buy.

The third flawed belief of founder-centric firms is "My firm is worth five times revenue because that's what I saw in the latest trade magazine." There's no one-size-fits-all methodology to determining firm value, but this raw comparative methodology often ends up with a delusional valuation, making it next to impossible to transition ownership of the firm.

Lack of Experience: Dr. Klein's research studied 120 cases of material insights, where one individual missed a situation while the other nailed it. Two-thirds of the insights in those cases depended on experience.

Many firms remain founder-centric because of inexperience, on both sides, in going through the transition process. This is almost

certainly the most important business decision a founder ever makes. Getting it wrong can be catastrophic. And it's hard to do a trial run. The same inexperience in the face of critically important decision making is true for a successor as well. But, at least, first-round successors can learn from this to better facilitate their own transition of ownership and management to their successors. In any event, the stakes are very high and the experience levels are very low. That pressure leads many firms to do nothing.

A Passive Attitude: For many founders, transition is on their "important" list, but it's not urgent. In doing research for this book, we talked to founders who asked why they should care. "Why isn't the status quo okay?" It will take us the entire book to thoroughly answer that question, but here are some of the counterinquiries: Do you care if your clients will continue to be well-served through the indefinite future? Do you care if your firm has true equity value—for yourself and for others? Do you care about your durable legacy?

These questions are nearly impossible to answer if founders have a passive attitude about the transition process. So we urge founders to take an active stance, to start thinking seriously about what this journey will entail, and to actively address truths about founder-centric firms.

Management as Distinct from Ownership: This is one of the most fundamental insights that successful transitions deploy. Ownership is about value, dividends, and ultimate control. Management is about responsibility, performance, accountability, and compensation. The two dimensions are always united in founders; they can be separated in successors—at different times, in different measures, and through different persons. As Tim puts it: "Management is a job, ownership is a status; when the two combine, well, it's a happy coincidence, but the combination is not necessary".

No Successor: Good successors are patient and respectful of the founders of firms, but they won't sit still indefinitely. Founder-centric firms lack the organizational foundation for growth and provide little opportunity for successors (of several future generations) to develop talent and build personal wealth.

Paralyzed by Indecision: Many founders are stuck in a tough position: They don't really want to work as hard in the business as they used to, but they aren't going to move on from what they currently have

until they decide what they want to do next. The emotional journey of running away from something versus running toward something can take its toll on both the founder and the successor. Founders may not want to keep the firm founder-centric, but they feel paralyzed with indecision.

Driven by Greed: Founders and successors trying to maximize every last penny from the past or future valuation of the business will not be successful in transition. Firms whose people harbor unreasonable valuation expectations—either much too high or much too low—will not transition.

No Legacy: The legacy of a founder-centric firm is limited to the charitable goodwill of the founder. A founder-centric firm can be financially generous, but the legacy stops there. The lack of transition leaves the clients and employees wanting but not getting more.

No Glass Elevator: In the final scene of the movie *Willy Wonka and the Chocolate Factory*, as a reward for his honesty, Charlie is granted a ride in a magical elevator. This magical elevator goes up the shaft and breaks through the ceiling, flying Charlie around the sky and giving him a different perspective. He's no longer constrained by the physical structure. Founder-centric firms have no glass elevator, as they are constrained by their business models. Founder-centric firms have limited leverage, driven by their capacity constraints. These constraints come as the founder either maxes out capacity or decides he or she wants to focus more on his or her own life than on the business. This lack of capacity leads to decaying growth.

Missing What Drives Value: Mark Tibergien, CEO of Pershing Advisor Solutions, discussed with us a very simple concept founder-centric firms fail to understand. "Valuation is a function of the future." The lack of a sustainable growth model in a founder-centric firm diminishes the equity value of a firm … perhaps to zero. It's easy to see how founder-centric firms, focused just on today, can miss this reality. Without future sustainability, without ongoing satisfied clients and solid continuing revenue, the firm could end up worthless.

Waiting Too Long: In theory, it's never too late to start a transition because a firm can always find a buyer for the right price—the buyer's right price. That price may not equal the amount of effort and work put into building a firm.

Reasoning Style: Whether someone has a concrete or open reasoning style is usually a personality trait. This is not to say a person with a concrete, black-and-white reasoning style can't gain insights; it's just more likely that new insights are going to come from a style that is open to tangents rather than a fixed destination.

As successors, Jay and Eric struggle with this one the most. As Eric explains, "Often, the successor is more a businessperson, bringing structure to the business to complement a charismatic, intuitive founder. The successor often needs to be concrete in decisions and to bring consistency and predictability to the company. This points to the opportunity to advance the process around their different strengths." Often, founders have the advantage here. You may just need to spur them to their own creative aptitudes and their taste for vision. What would make a truly inspiring future?

"The Painters"

Successful transitions are an evolution not a revolution. Philip Palaveev spends most of his time helping advisory firms create better organizations. Philip describes a story from a forum he moderated; it serves as an inspiration for enhanced awareness in transition efforts. At a session focused on success with both founders and successors present, one founder stood up and eloquently described how creating a business seemed to him a lot like painting a picture. He wanted the picture to be beautiful and to be preserved so that many could see and appreciate it. A successor quickly jumped up and explained the problem with this view. The successor said "You are missing the point. We are artists, too; we want to keep on painting the picture."

Many firms became a masterpiece because founders were visionary enough at the outset to see there was a better way of doing things for their clients and lots of room for improvement in their business models. They were the founders starting fee-based firms in the financial advisory space. They were founders paving the way for a new business model around financial planning, designing financial plans on dot matrix printers, or even on yellow legal pads, and using handheld calculators.

They were accountants realizing there was a model built not only on compliance and tax returns but on becoming business advisors and developing deeper relationships with their clients. These founders rose to the occasion in the face of great challenges and created new opportunity for their clients—and, in so doing, for themselves.

Successors can achieve the same kinds of accomplishments if they are given the chance. In all industries that advisory businesses serve, there are great challenges ahead. The world is becoming more complex for the clients they serve. Advisory services firms cannot expect to be immune. Technology is advancing, regulatory costs are rising, and expectations for the services provided are rising while prices are falling. There is no lack of ongoing challenge, and there's no lack of opportunity for ongoing entrepreneurial success by the successors to the initial pioneers. As Bernie Clark, executive vice president at Charles Schwab, puts it: "Regulation is going to impose [a] much greater burden on advisory firms, probably fostering more combinations, but forcing much more sophisticated firms in any event."

So founders cannot expect successors to treat their firms like masterpieces in a museum. Successful firms don't hang on walls and remain unchanged. Herein lies the lesson. The remainder of this book is about conflict. It's about a celebration of the masterpiece founders have created, but it's also about the difficult necessity of change. This book is about making founders and successors realize they have something in common: Both of them are painters. They want the best for their firms and clients. The transition process requires founders and successors to grab a new canvas. Let's paint.

KEY TAKEAWAYS:

1. It's perfectly normal for a firm to be founder-centric. Many successful firms grew up this way because of the operational realities of building a successful advisory business. No apologies are necessary.
2. A firm needs to be honest with itself about whether or not it is founder-centric and understand the challenges this may or may

not present for the future. If a firm genuinely wants to transition, it cannot remain founder-centric.

3. There are fundamentally flawed beliefs that exist in many founders' minds and in the advisory business industry. If not overcome, those flawed beliefs will likely doom the transition process.
4. The transition process has to celebrate the achievements of the founder and the firm. Both founders and successors have to be "running to something," not "running away from something."
5. Founders and successors should revisit the awareness discussion. For a firm to transition effectively, it requires both founders and successors to gain effective insights at the proper times.