

## CHAPTER 1

# Who Are G2s?

There were about 30 people in the room. They were gathered for a study-group meeting and half of them were founders who years ago had started some of the largest and most successful advisory firms in the country. The other half were younger. They had joined the firms in the last 10 years as employees and had over time risen to become owners and leaders in their respective organizations. This collection of firms was called the younger group *G2*, short for second generation, to signify that they were not founders but rather the *next* generation.

A founder by the name of Richie Lee stood up. He spoke slowly and his words were rather poetic. “If a business is like a painting,” Richee said, “I want my business to be a beautiful painting that people can see even after I am gone. I want it to be a painting that lasts and endures.”

Becky Krieger, one of the G2 participants, got up to respond and what she said, to this day, best illustrates for me the dynamic between the generations of leaders inside advisory firms. “Richee,” she said, “You have to remember we are artists, too. We are not here just to preserve your painting. We are here because we want to create our own works as well. We want to add to your painting and we want to paint our own!”

Rebecca represents the G2s whom this book is about. They are talented, ambitious, and driven. They are experienced and accomplished in their profession. They are young but not youngsters; they have one or two decades of achievements behind them. They are looking to continue the work of the founders and eager to build and create their own. They are the future of the advisory industry and they are ready to take over.

G2 has already begun to take over, in fact. Many G2 members are owners (partners) in their respective firms. Some are COOs and CIOs. G2 professionals are managing client relationships, leading teams of people, and striving to be leaders.

Every firm needs a G2 if it is to have a chance of lasting beyond the involvement of the founders. Firms that lack a G2 or those where G2 is underdeveloped will likely dissipate or be merged and sold into bigger entities over the next 10 years. Firms that have developed their next generation, in contrast, will be magnets for other practices who want to merge with them. They will not run out of energy or people as the founders approach retirement.

G2 may be the future of the advisory industry, but it cannot take over yet—not without some help from firms and the industry at large. Having spent most of my early professional career as G2, I can easily relate to the challenges facing the next generation. Some are challenges that G2 members created themselves, and others are deficiencies in the environment where they grew their careers. Now that I am founder of my own firm and working with G2 partners, I can also relate to the feelings of the founders. It is difficult to trust a generation that is so eager but still unproven.

I have written this book as a bridge between founders and G2 because, ultimately, the truth is this: *G2 is the future of the industry, and successful firms need to hire and embrace these younger professionals.* Firms that fail to do so will have short remaining lifespans. To flourish, G2 members need to learn not only how to be good professionals (i.e., how to attract and service clients) but also how to be good owners, managers, and leaders of their firms. They need to learn how to make good decisions, put the best interests of the business first, and inspire others. Good firms will find a way to cultivate their management skills, educate them about being owners, and give them the opportunity to become leaders.

I hope you will follow me in this exploration of why G2s are the future of the advisory industry.

## **Defining G2**

The term *G2* includes the cadre of professionals inside advisory firms who:

- Are not founders and did not join the firm in the first 10 years of business—in other words, they were not part of the start-up phase of evolution.
- Have at least five years of experience in their field—they are experienced and not just starting out.
- Occupy key positions in their firms—they are lead advisors or team leaders in operations.
- Are considered future owners or are already owners in their firms, meaning they are invested in the future success of the firm in career, emotional, and financial terms.

- Are seen as successors to the founders, not necessarily individually but as a group.
- Most of all, self-identify as future leaders of the firm who both preserve the legacy of the founders and look to take the firm further and make it better.

Thousands of G2 professionals are already rising to prominence inside the advisory industry. More importantly, thousands are missing entirely. According to the *2016 Financial Performance Study* of financial advisory firms produced by The Ensemble Practice LLC, the typical advisory firm started in 1997.<sup>1</sup> Today, those firms generally have more than 20 years of history and have grown to be sizeable and successful organizations. As these firms have matured, their need to hire more people has increased. Unfortunately, not many firms have.

A well-publicized report by research firm Cerulli Associates indicates that 43 percent of advisors are over the age of 55 and intend to retire in the next 10 years (although intention is not the same as action).<sup>2</sup> The same report claims that only 11 percent of advisors in the industry are younger than 35. These numbers cause research firms to predict that we will be missing as many as 280,000 advisors in the next 10 years, after accounting for continued growth and retirement.

The 46 percent of advisors who fall between these two age brackets—younger than 55 but older than 35—are the subject of this book. However, age is not a factor that defines G2. The focus is on professionals who are experienced and accomplished but have not yet had their turn at driving the business.

## Developing the Next Generation Is Critical

Too often the development of G2 is equated with succession. While the logic here is solid—develop G2 successors or you will have to sell the firm in order to retire—it is also incomplete. Firms need G2 for growth! The typical advisory firm doubled in size every four to five years in the period between 2003 and 2014.<sup>3</sup> While growth has slowed down in the past three years, firms continue to need more people, more professional capacity, and, most of all, more leaders.

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<sup>1</sup>InvestmentNews Research, “2016 Financial Performance Study” (InvestmentNews, 2016).

<sup>2</sup>Cerulli Associates, “Advisor Metrics 2013: Understanding and Addressing a More Sophisticated Population.”

<sup>3</sup>See note 1.

## G2s as Agents of Growth

G2 professionals are not just successors. They are agents of growth who bring skills and talents firms otherwise would not have. As a firm adds more client relationships, it needs professionals who can manage those relationships. In my experience and depending on the business model, a lead advisor can manage only 40 (for multifamily-office and ultrahigh-net-worth firms) to 150 (for general financial advisory firms) client relationships. If client rosters exceed those numbers, the firm must find a new advisor.

The hope of every firm is that its advisors will be just as talented and dedicated as the founders when working with clients. What is more, it is not just the hope but very much a requirement of firms that advisors do not defect to a competing firm that is trying to take away clients. Advisors are asked to remain with the firm—ideally for the duration of their careers—since clients do not look forward to changing professionals. These dual expectations of excellence and longevity are unique to professional service firms and even more pronounced in financial advisory firms. While attorneys and CPAs can and do change employers, advisory firms expect to hold onto their professionals and clients for many, many years.

It seems to me that for every 100 or so additional clients, a firm needs to hire at least one professional who brings both an extraordinary skillset and a dedication to the firm. The new hire must be experienced and credible enough to lead clients, be loyal to the firm, and be integrated into its culture to stay for a long time. Before these professionals become the successors, they will be the leaders of growth. This is why every firm needs its own G2 advisors and cannot have enough of them.

Many firms have tried to bypass the need to hire and develop G2 advisors by leveraging the founders more. I have worked with clients where single founders or small groups of founders have surrounded themselves with capable service people. These service people tackle much of the work, but they cannot lead client relationships. This means of leverage, combined with careful client selection, can certainly take a firm to a billion or more in assets under management (AUM). But even with leverage, the day will come when capacity is exhausted. Moreover, a firm with extreme leverage can be very fragile.

Beyond increasing a firm's capacity, G2 professionals bring a skillset that perhaps the founders never had. Many hold MBA degrees and have experience in management and operations. Often the proponents of structure and process, they become the first COOs of many firms. They help clarify organizational structures, define positions, and establish career tracks. Their growth

puts pressure on firms to create governance and ownership structures that can allow for many to participate, and they encourage founders to remember the long view.

### **G2s as the Gateway to the Next Generation of Clients**

As advisors age, so do their clients. My experience has been that clients brought in by the founders are typically no more than five years older than their advisor's age and usually no younger than 10 or 15 years. As clients age, their assets shift into distribution mode, their rate of new referrals declines, and their exit from the firm nears. Many firms intellectually understand the need to attract younger clients but struggle to do so.

G2 advisors are the gateway to younger clients. Just as the founders brought in their peers—business owners, executives, and professionals who shared their social network and stage of life—G2 professionals can do the same. A 65-year-old founder is not likely to find a 35-year-old doctor to bring in as a client, but a G2 professional is. That young doctor has her entire career ahead of her and will soon be the kind of client that every firm wants. The same is true for the emerging entrepreneurs and executives, and perhaps even the second generation of wealthy families. The G2 generation of advisors will bring the next generation of clients.

### **G2s as Managers, Leaders, and Successors**

G2 professionals are not just the advisors of the future. They are the managers of the future, as well. As the number of clients grows, so will the number of people in the firm. What used to be a small firm with 10 to 15 people on staff will quickly become a true organization with 50 to 80 employees. Every employee needs direction, management, encouragement, explanation, training, mentoring, and, above all, attention. As the organization grows, the ability of the founders to remain in control and, more importantly, to manage their ever-growing team diminishes.

There are many theories about how many direct reports a manager can have, but few sources will argue that one or two founders can control and manage an organization with 50 people on staff. According to a *Harvard Business Review* article, the typical CEO has between 5 and 10 direct reports.<sup>4</sup>

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<sup>4</sup>Gary L. Neilson and Julie Wulf, "How Many Direct Reports?" *Harvard Business Review* (April 2012).

Another author argues that managers should ideally spend around six hours a week with their direct reports.<sup>5</sup> Again, this implies a number of direct reports no larger than seven. It is not my intention to debate the best number of direct reports. Rather, the point is that as a firm grows, founders need to delegate management to their G2 colleagues. Retaining full control over all management responsibilities is unfeasible.

G2 professionals may also be able to relate much better to new employees in the firm. Since G2 advisors are typically in their thirties and forties, they are in a better position to communicate and manage the Millennials joining the firm. I know from personal experience as a subordinate, that the best person to be your manager is someone who has been in your shoes in the not-so-distant past and understands the challenges and characteristics of your position.

As G2 professionals become better managers, many will also develop into leaders of the firm. A leader is someone who makes difficult decisions and leads others by example to implement those decisions. Most firms need more leaders. As the scope of operations grows, as the number of people increases, and as firms enter into new markets and new locations, they need more leaders who can propagate the culture of the firm and guide its ever-growing team. That is the role of G2 professionals. They are leaders who will help the firm grow.

Of course, they are (potentially) successors, too. Every founder will need to eventually exit the business, one way or another. When that day comes, firms that have a strong cadre of G2 professionals will have many options. They can keep the ownership of the firm within the team and focus on internal succession. Alternatively, they can merge with another team and become part of a bigger regional or national firm. Finally, they can be acquired, and chances are that a motivated group of younger professionals will increase the number of potential buyers and the price they are willing to pay. Some of those options, of course, are available to firms who don't have G2s but in those cases, when internal succession is not possible, the terms of a merger or a sale will never be as good. Firms with G2 professionals hold all the cards.

## **Just Hiring Them Is Not Enough (But Start There)**

At Moss Adams, we always looked to hire consultants with five years of experience. Unfortunately, those are hard to find. One day it dawned on us that

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<sup>5</sup>Laura Vanderkam, "Why Managers Should Spend Exactly Six Hours a Week with Each Employee," *Fast Company* (July 14, 2014).

for a seven-year period we had been looking for professionals with five years of experience. If you want to have experienced professionals on your team, you need to be willing to grow them within your organization.

### Limitations of the Free Agent Market

Relying on the free agent market alone is rarely a good strategy. First, the free agent market in the advisory industry is not very active. The *2015 Adviser Compensation & Staffing Study* produced by The Ensemble Practice LLC estimates that for professional positions, the turnover in the industry is less than 5 percent. This means that the supply of experienced talent is not very abundant. What is more, integrating experienced professionals in the processes, structures, and culture of a firm is a difficult and slow process.

Every firm dreams of hiring a professional who has years of experience and can manage 100 client relationships while developing new business and helping to grow and manage the firm. Furthermore, most firms hope to find a professional who is collaborative and open to integrating into the culture of the firm. Of course, this unicorn profile is in high demand. Fulfilling it practically pays for itself and generates an immediate addition to profits. While every firm seeks this dream professional, such a person is rarely available for hire. Chances are that people like this are highly valuable members of a team where they are well compensated. Very likely they are part of the ownership of their firm.

### Developing Professionals Who Fit the Dream Profile

There is another profile that is quite available for hire, but firms don't seem willing to give it attention. These are the many young professionals with finance degrees, often even MBAs and CFP certifications, who are looking to begin their careers in the industry and struggling to find firms that will hire them at the entry level. The recognition of the financial advisory industry and the increase in the number of schools teaching personal financial advice is helping create a supply of inexperienced professionals. They can certainly fit the dream profile, but they need firms that will invest in 10 years of training and developing to help them grow into it.

The importance for firms to hire and grow professionals cannot be emphasized enough. This includes not only professionals they need now or next year, but also professionals they will need in the next 5 or 10 years. A mature professional needs 10 to 15 years of training and development. This means that firms that want to have highly productive G2 advisors

who are ready to contribute next year should have hired those professionals 10 years ago. While this may seem like a very long-term perspective, it is the only reliable way of creating an ample supply of future professionals.

## **What G2 Professionals Need**

For G2 professionals to become the future of a firm, they will need experience, training, and opportunities to apply their training. While firms have become quite adept at imparting professional knowledge and training on client service processes, that alone is not enough to turn G2 professionals into true future drivers of a firm. For that to happen, firms need to train on additional types of skills and provide experiences that G2 professionals don't currently receive.

## **G2s Need a Chance to Drive the Car**

I grew up in Eastern Europe, where young people very rarely had a car or ready access to one. We grew up riding buses and trains. That said, we all went to driving school and got licenses. So when I bought my first car at the age of 25, I had had a license for seven years but had no idea how to drive. Just as you can't learn how to drive a car by watching your dad, G2 professionals are not going to learn how to be leaders by watching the founders. They need opportunities to "drive the car" on their own.

If leadership consists of difficult decisions, then G2 professionals need to be in positions where they can make such decisions and be responsible for the results without being overseen or "saved" by the founders. They must have the opportunity to take on the challenges inherent to leadership:

- Leading a client service team, including staffing, managing, and training that team
- Managing employees, delivering performance evaluations, and being responsible for employee contributions and overall development
- Leading a committee and being responsible for the execution of all plans made by that committee, ideally in the context of a firm-wide business plan
- Championing a new market and paving the way for the firm to grow and expand into that market, including responsibility for the results of that initiative (or lack thereof)
- Implementing a new service or new process, including training others on using that process



- Researching and championing a new technology that can be used across the firm
- Driving a marketing initiative and becoming responsible for its results

There are many other examples possible, and they all share a common characteristic: They offer G2 professionals the opportunity to take ownership of an initiative that is important to the firm. Side projects with little at stake for the firm don't create real opportunities to learn or contribute. Real opportunities come when there is real responsibility.

Another characteristic inherent in these opportunities is the ability to involve others. Projects that can be accomplished by one person are important, but they teach little in terms of motivating and organizing a team. In fact, they often teach professionals to be too self-reliant, since they suggest that individuals can be successful on their own. This notion can be damaging to professionals later in their careers, when they will likely come to the realization that doing everything on your own is very limiting.

Finally, and very importantly, G2 professionals need to be responsible for the results of these leadership opportunities. They need to be recognized for successes, but also held responsible for failures.

## **G2s Need the Opportunity to Fail**

You will never learn to box by punching the heavy bag. You need someone who can punch back. Similarly, you will never learn to lead without being responsible for the lack of success. Projects that fail are very important: They tell us what not to do. They help us learn about ourselves and our reactions, motivations, and ability to persevere. They tell us about our ability to lead others. It is very easy hosting a party if you don't have to pay the bar tab. The cost of failures is what keeps leaders honest and what makes leaders accepted. We learn whom we can trust when things go wrong.

Founders often struggle with letting their best people fail. Parents are very familiar with this feeling. It is like watching your child learn how to ride a bike. Training wheels can't stay on forever. At some point, you must run along with your child, holding the bike and catching her when she falls. But you can't do that forever. Eventually you have to let go of the bike and watch your child wobble around, milliseconds away from disaster. In fact, you know your child will sooner or later show up crying with a bloody knee or elbow. Unfortunately, there is no other way to learn to ride a bike.

For a firm to truly give G2 professionals a chance to lead, it has to be willing to let them fail. Yes, this could mean losing some clients and perhaps

upsetting people (founders included), but the learning process is not complete until we know what it feels like to fail.

## **G2s Need to Take Over Client Relationships**

Everything in professional services, and particularly in personal financial advice, begins with being able to impress clients and earn their trust. That trusted relationship is the building block of a professional career. Trust translates into growth through referrals. Trust allows a professional to build and maintain a team. Trust facilitates the ability of a professional to establish himself as a manager and leader internally. If G2 professionals can't earn the trust of their clients, they can't progress past the second-tier position in their firms.

As obvious as this sequence may be, many professional careers stop at the second chair because firms are not giving young advisors enough opportunities to step forward and earn the trust and respect of clients. Firms heavily prioritize client retention and are unwilling to risk changing the lead advisor on a relationship. This stunts the development of younger advisors, who seem to always be supporting but never leading.

At some point, a firm must realize that the career of a talented professional is much more important to the future of the firm than the relationship with any single client. A good professional will typically manage \$1 million or more in revenue, lead a team, and contribute to growth. Very few clients can have the same impact. This is not to suggest that firms should sacrifice client service or experiment on clients. It simply means that firms should systematically give their best G2 people the chance to shine in front of clients. It also means that firms should prepare clients for these coming changes so that they are supportive and encouraging of the process.

## **G2s Need to Become Better Business Developers**

Business development (i.e., sales) is the Achilles' heel of independent advisory firms. Built on a foundation of client service and retention, firms are often concerned that a sales focus will undermine the culture of the firm and focus professionals on the wrong agenda. Giving in to these fears results in a firm that is overdependent on the founders or a few select rainmakers. Younger professionals in these firms never receive training in business development and are often quickly labeled as "not entrepreneurial." In the *2016 Financial Performance Study*, only 25 percent of firms report that they provide any business development training to their professionals.

As with most of the challenges faced by G2s, often all that is needed to overcome the obstacle is some training, some encouragement, and some patience. Behind the success story of every good business developer is usually a patient mentor who helped frame sales in the right way: meeting needs and creating solutions rather than pushing unnecessary and unwanted products. Mentors serve as an example and explicitly or implicitly provide young professionals with a process for identifying needs and communicating solutions.

G2 professionals are usually the victims of this cultural dysfunction: They are trained to focus only on service and stay away from sales, and then they are blamed for not contributing to growth. Every professional can learn to be a competent business developer. Firms simply need to incorporate growth into their values, provide the training, and coach patiently.

### **G2s Need to Learn to Manage People**

There was a dark saying in my first firm that “for every new manager we promote, we lose one analyst” (i.e., an entry-level employee supervised by the new manager). Unfortunately, there was a lot of truth to that. The same phenomenon occurs in advisory firms. As young professionals advance in the early stages of their careers, they usually do so on the strength of their knowledge and professional experience. Then, suddenly, the moment arrives when they begin to manage other people and become responsible for the performance of others. This first experience can be uncomfortable and shocking. For many, it ends in disappointment and the determination to never manage again. Some professionals also get labeled as difficult to work with, when all they needed was more experience and guidance on how to manage.

Lee Iacocca, the former CEO of Chrysler, put it best: “A major reason capable people fail to advance is that they don’t work well with their colleagues.”<sup>6</sup> Managing people effectively requires a change of mentality and a skillset that is rarely included in professional programs. Even if someone has the theoretical knowledge of management, the practical reality is something else entirely. Behavior is often unpredictable, and theory can be limited in its application to the many situations that occur in real life. Managers need training and experience on how to handle the people on their teams. This experience can only come with time and exposure to situations and people.

Given opportunity and time, most G2 professionals can become competent managers. However, one of the biggest mistakes firms make is to panic at

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<sup>6</sup>Lee Iacocca, *An Autobiography* (New York: Bantam Books, 1984).

the first sign of trouble and pull their professionals away from management. In fact, while most professional service firms manage service teams from within (i.e., professionals manage other professionals), advisory firms continue to search for some kind of elusive HR department that will deal with management and shelter advisors from having to train and supervise their junior colleagues. This notion is not only naïve (it does not work), but it also damages the careers of all involved. Early management struggles are normal, and G2 professionals need training, guidance, and mentoring on how to be good managers of people.

### **G2s Need an Ownership and Governance Structure**

Advisory firms have very high expectations of their professionals. They expect them to achieve the highest levels of professional expertise, excel at building client relationships, and dedicate the rest of their professional careers to their firms. For this commitment to be mutual, professionals traditionally receive the opportunity to become owners. This financial investment is material but also symbolic. It signifies that the firm highly values the professional, and that the professional agrees that her career and capital will rise and fall with the firm.

Ownership is a necessary part of the strong mutual commitment between a professional and the firm, and firms should not seek to replace it with compensation mechanisms and synthetic technicalities. For ownership in the firm to have meaning and significance, however, firms need to create an ownership structure and governance process that allows G2 professionals to thrive.

The key to a thriving firm is stability. Stability allows the next generation to form expectations and to invest in the long-term future of their careers and the firm. Governance should be built around a careful balance between executive function in the hands of dedicated managers and the broad representation of the partner group. Clear criteria for professional advancement, including criteria for who becomes an owner, will bring the values of the firm to bear. There is no better way to put values into action than to tie them to the criteria for who is successful in a firm and who benefits financially and career-wise from the success of the firm.

A firm that combines the training of future managers and business developers with a balanced governance and ownership model will always have a bright future. No matter how much the industry consolidates or how the business models change, the experience of every other professional services industry clearly shows that there is always room for the success and growth of

a firm with a dedicated, motivated, and talented team of professionals. That rule especially applies to a firm with a depth of next-generation talent.

## **G2s Are the Future**

As the Dalai Lama says, “There are only two days in the year when nothing can be done. One is called yesterday, and the other is called tomorrow.” G2 professionals are the future of the advisory industry, and that future depends on the decisions you make and the steps you take today. It is never too soon or too late to begin developing the next generation.

If you are a founder and have made it past this first chapter, chances are that somewhere in your firm there are one or more professionals for whom you have high hopes. Perhaps this text will help you develop them into the colleagues and partners that you want them to be.

If you are a G2 professional and have made it past this first chapter, perhaps you are wondering where your career will take you and what your firm will do in the future. We hope that this book gives you a path to follow and some practical advice to make that path easier.

Think of G2s as “going to . . .” Where would you like to go? Whether you are a founder or a G2 member, experienced or just starting out, this is an exciting time to be in this industry. Your career can give you all the professional challenges and personal satisfaction that you seek. Invest in yourself, invest in your people, invest in your team, and invest in your firm, and chances are good that you will see a return on your investments.