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Hiring and welcoming COOs to firms isn't easy

By Lavonne Kuykendall

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When the owners of an advisory firm turn over everyday operations to a senior-level employee, it is a watershed decision — and it is usually one that most firms avoid as long as they can.

“Operations has always been the red-headed stepchild” because it isn't directly related to revenue, said Scott Foret, chief operating officer with Tactical Allocation Group LLC, an independent registered investment adviser with more than $1.3 billion in assets under management. “But it is a critical enabler to business growth that goes unsung.”

Growing investment firms typically rely on a combination of multitasking and piecemeal outsourcing for day-to-day operations and office processes. But eventually, most firms will hit a wall and need more expert and dedicated help, advisers who have been through the experience said.

One solution is to hire an operations expert on a part-time or consulting basis, or a manager who can grow into a more senior role over time. The most stifling option is to continue to do it all yourself.

Mr. Foret and others, said, though, that surveys suggest that most firms make do without a dedicated operations executive.

The most obvious benefit to hiring a COO is that it “unburdens advisers,” freeing them up for more client contact, said Martin Kurtz, president of The Planning Center Inc. Putting it off too long can nudge advisers up against the “ceiling of complexity,” which is the point when they no longer can keep track of any more accounts, he said.

Mr. Kurtz's rule of thumb is that once a staff hits 12 or more, roughly split between advisory and administrative workers, an adviser should consider bringing on an operations specialist. Based on a typical salary of $100,000, a firm would probably need annual revenue of at least $3.3 million, based on the benchmark of paying no more than 3% of annual revenue on a COO salary, though some firms set that percentage lower, said Mr. Kurtz, who is president of the Financial Planning Association.

Mr. Foret, who is the first executive at Tactical Allocation Group to focus entirely on operations, said that advisers need to consider adding an operations executive when a lack of standardized processes begins to limit the company's growth.

That was what happened at Mr. Foret's company as it grew to the point that trading and other processes began to become unmanageable.

“We recognized it and addressed it,” he said.

Advisers should aim to spend at least 60% of their time on marketing, and the majority of their remaining time should be spent on compliance, client “homework,” research and reviewing their own strategic plan, with operations tasks at the bottom of the list, according to Ginny Hudgens, a former COO who now works as an operations consultant.

She recommends that advisers use tracking software such as a free Internet program called Grindstone to get a handle on how they are spending their time. If operations crowds out more-important tasks, growth will be “painful and slow,” Ms. Hudgens said.

Once a firm has more than about 25 employees, it is time to consider hiring an operations executive, said Jennifer Goldman, who runs a firm called My Virtual COO. Ms. Goldman, who has been the inaugural chief operating officer at three advisory firms, said that staff count is a key factor in the hiring decision.

Her company specializes in helping smaller firms avoid that expense by installing computer systems to automate much of the firm's work flow, but she said that she often turns down requests from companies with a staff of 25 or more but no operations specialist.

“When you have a lot of staff, emotions come into play” and you need a human manager to smooth things over, Ms. Goldman said.

Despite the apparent advantages, advisers generally seem to be less than eager to make the hire.

Of firms that have a chief operating officer, 11% hired that COO at less than $100 million in assets, according to the 2009 *InvestmentNews/*Moss Adams Adviser Compensation and Staffing Study, the most recent year for which figures are available. Forty-three percent of firms made the hire after they reached $500 million in assets.

The results of a new survey will be released in the fall.

The median salary for a COO in 2009 was $131,507, and about 67% of firms surveyed paid incentive compensation.

Cost is a factor, advisers said, but they have other reasons for not hiring a COO.

For instance, one would expect Steve Gallo, a partner at U.S. Financial Services LLC of Fairfield, N.J., to be eager to bring on an operations officer to relieve him of the firm's administrative duties. But even though the firm could afford it, he doesn't like the idea of discussing with a non-partner private details such as partner salaries.

“The biggest concern is confidentiality,” Mr. Gallo said. “It is tough to give that up.”

At $150 million in assets under management, Wealth Management Strategies Inc. of Pittsburgh is too small to have a chief operating officer, said adviser Bud Kahn.

He outsources what he can and delegates some duties to his office assistant, and he prefers it that way in order to maintain a “boutique” atmosphere.

Others, such as Jennifer Hatch, president and managing partner of Christopher Street Financial in New York, have employees who grew along with the firm and eventually took over the job.

“He was basically an office manager and an assistant” at first, she said of her company's COO. “As we grew, we needed to hire more people to get things done, and we needed to give him the authority to do more.”

Paul Moffat, president of Arista Wealth Management of Las Vegas, is a believer in the advantages of having a COO. He decided that he needed to outsource operations functions after the recent market downturn in order to spend more time with clients.

Mr. Moffat wasn't yet ready for a full-time operations executive, so he hired Ms. Hudgens to handle operations on a part-time consulting basis.

“It has put me back in the role that I love and that got me into this industry,” he said.

In the 16 months since he hired a consultant to serve as a part-time operations manager, he said that his assets have grown 33%, excluding market growth. Mr. Moffat credits much of the growth to his ability to focus more on client relations and marketing.

He also appreciates having a knowledgeable professional to give him occasional coaching.

“She is almost like a silent business partner,” Mr. Moffat said. “Sometimes the profession can get a little lonely.”

E-mail Lavonne Kuykendall at lkuykendall@investmentnews.com.