MANAGING YOUR PRACTICE: A DIMENSIONAL PODCAST SERIES

From Intern to CEO: The Roadmap for a Successful Internal Succession Plan

Catherine Williams: Hi everyone, thank you for joining us today, we're going to talk about internal succession. We know from our Global Advisors study that nearly 50 percent of advisors who participated say that they intend to execute their succession plan within the next 10 years. This is definitely fueling some of the M&A activity we're seeing. But we do hear regularly that an internal succession would be the preferred route for many. However, we know this takes time, a focused strategy, and that is where we often see firms struggle. So my guest today can not only speak firsthand about the process of an internal succession, but as well as an author and speaker on the subject has been helping firms around the country consider their own path for succession. So we're in great hands today with regard to our topic. Eric Hehman. Eric, it's great to have you with us today.

Eric Hehman: Yeah, thanks for having me, Catherine.

Catherine Williams: For those of you who may not know, Eric came in as CEO of Austin Asset, an Austin, Texas based firm, managing a little over a billion dollars in assets and with about 20, 21 employees.

Eric Hehman: Yes, we'll add two more this week and the next week, so hopefully we'll be at 24. So yeah, getting there.

Catherine Williams: Fantastic, great. Awesome to hear. Well, I think it's always best to start at the beginning and for those in our audience who may not be familiar with your own path at Austin Asset, would you be willing to share what that look like in the beginning for you?

Eric Hehman: Sure, so this is my only real job. I was a senior at the University of Texas here in Austin taking a personal finance class and decided that CFP actually could be a job I'd be interested in. And so I got a list of names of people that were in town that were CFPs, called the founder of Austin Asset, John Henry Macdonald. And that conversation turned into 27 years later of still being here. And so I started off as an unpaid intern. Essentially, he couldn't afford to pay me and I didn't know what I was doing. And so I just hung around the office and did random odd jobs. So that by the time I graduated, I could ask for a paycheck because my parents thought I was crazy if I was still working for free and waiting tables with a degree. So, yeah. So that was in the spring of 1997. He had had the firm for about 10 years, essentially a solo practice with a helper on the team that was part of the business with him. But it was a small business. It was a pure lifestyle business, about 150,000 dollars of revenue. And if there wasn't work to do, then there was no reason to be in the office, so to speak.

Eric Hehman: And so that's what I walked into in 1997. And the great thing is, he had a huge vision for building a professional services business at a time when it was all brand new to think of charging fees and being retained for by clients. And so it was it was one of those situations where it was the perfect storm for me. I could show up and provide value to business type conversations, whereas he was doing all the work for the client facing part of the part of the business. So it was wonderful. That's how the business started. At least my relationship here and his vision of building a financial planning firm and hiring people that were CFPs then became my job to figure out how we would do that. And so the joke that he and I had was he caught the fish. I figured out what to put on the menu for the night. And so it worked out really well to most of my focus was on practice management at the time, even though I didn't know what that was. You know, organizing files, figuring out how to get contracts signed and which invoices need to be sent and which ones had been collected. What was our service model? What was the file structure we would use for information that we got from clients? And so it was really basic business, 101, it felt like early on.

Eric Hehman: But after a few years of that, the firm had, you know, more than tripled in size. And we were growing quite a bit. And the decision was either I become an advisor, I'd gotten my CFP at 25, and become an advisor like he was, basically kind of do what he was doing as an advisor or focus on kind of running and helping build the business side. And so the decision we made was, while I could do work that was, you know, worth $200 an hour as an advisor, what we were charging back then for hourly work, there was other work that he felt like and I felt like was more valuable and that I could go work on a project that might be worth $10,000 to the business over the course of the next, you know, few months. So that's what I did. I became more of like a COO managing partner. He sold me 10 percent of the company. And my job became, how are we going to build this? How are we going to hire people? How are we going to, you know, create some structure around it so that it could be repeatable?

Catherine Williams: I'm curious because what you're essentially describing is both of you seeing in each other not just a vision, but the strengths that you each had that could help bring that vision to fruition. And I know we're going to talk about the ultimate succession of the business, but, you know, it's one thing to have someone articulate a vision to you, but you need to be able to see underlying characteristics and traits. And, of course, I'm going to ask you in a few minutes about your own traits that allowed for some of the movement to happen. But as you as you came to know, John Henry, you stepped into that business. What did you see that that told you? Wow, this like this person is really going to potentially get it done and I want to be part of that process.

Eric Hehman: It's a really good question. I think there was a sense that he had had this it had this business for about 10 years. He had gone from being essentially purely a sales person as a CFP and the firm building it and then becoming fee-based and then dropping all of his licenses about two years before I joined him and became a fee-only firm in 1995. And so he had had two years of figuring out that he wanted to be a professional firm where clients just paid him for his advice. But all of his focus is on the deliverable. Now, what does the client get? How do we solve those problems? What questions do we answer? What do we charge for it? And along the way, when I showed up, I recognized there were a lot of little nuggets that were on the ground that were just kind of crumbs left over from the business, which were, you know, how do we have agreements that are signed by the clients? Do we have a repeatable service that we actually can deliver to this client that we're going to deliver to the next client next week? And his focus just wasn't on that. His focus was on delighting the clients and solving their problems. And so behind the scenes, there was just all this wonderful you know, just equity in the business in terms of goodwill. They just need someone to organize it so that he and I talked about this idea that, you know, he gave me access to the playground and gave me some different tools that were already laying there and said just build something with it. And so I think that's what was fun, was he knew his strength was on the client side, and I knew mine wasn't. And so in order for me to figure out a way to earn a paycheck, it was organizing the business side of the of the business, so to speak.

Catherine Williams: Well, I want to fast forward a bit, because as one of three authors of the book, "Success and Succession," something that I find really intriguing is how the book itself came about and at least where the kernel of idea came. And so, you know, when the book "Success and Succession" that you wrote with Tim Kochis and Jay Hummel and this idea that you were at an industry conference and you had an opportunity to observe and hear the perspective of both founders and successors and very quickly identified some real clear areas of disconnect or even outright disagreement on how to move that conversation. Where were you in that process with John Henry? And also what particularly stood out from you as you think about some of those things that you observed at that conference, which became, you know, as I said, kind of the genesis for the book that you wrote.

Eric Hehman: Being part of helping John Henry build the business, we got to a place after about 10 years that maybe the business needed a different path in terms of, you know, strategic leadership. And so we made the decision for me to step into the CEO role and him to step out of that. Well, the part that was going on behind the scenes was I was having a lot of conversation with my peers. He was having lots of conversations with his peers. But those conversations were happening separately. And I think that's that was the big “aha” moment. If we had one,

Catherine Williams: Hmm.

Eric Hehman: was you know, Tim and I were great friends and I would have conversations with him about what it was like to be a founder and other founders. I'd talk to them. Jay and I were great friends, but we were both contemporaries, kind of in helping firms consider what succession would look like. And when I would go to conferences or events, and if I was talking about practice management things or being involved in a panel or something, it seemed like those two audiences weren't talking very much together, like the different generations weren't talking about how to solve this together as much as the founders were having their sidebar conversations and those of others us were sitting at the kids table having a different conversation, so to speak. And what we realized after that event was it would have been really great to have a panel of those two parties combined.

Eric Hehman: And that was kind of where the idea of the book came from. And it was very missional project in that Tim was in a place where he was talking to other friends of his there, were struggling with all the founder type issues. And Jay and I were immersed in our own succession plans, but also dealing with our peer groups of feeling like they really needed answers and direction on what was going to happen in their businesses. And so the book became an expression of that, where we decided to we wanted to interview different people that were at those different stages and have them tell stories that they hadn't before. Most of the literature was about the deal structure. It was about the money. And what we felt was missing was just conversations about operationally, how do you actually go from being a senior advisor in your firm where you're leading all the client relationships and most of the revenue is tied to, let's say, these big clients that you service to a number of years later, not have any tie at all to the business? Well, there's a lot of operational things that need to happen around clients. There's a lot of operational things that need to happen around just how the business gets run and how it manages itself. But then the last piece that really wasn't discussed very much, just talked about a lot in hospitality suites, or in sidebar conversations was all the emotional issues of identity and the office and, you know, control and the business card and all these things that didn't show up in magazines.

Eric Hehman: And so that's where we had a lot of fun with interviews, asking questions of founders and successors to talk about the stuff that was usually based on some emotional challenge or at least an emotional opportunity around why succession was important to them. Because the finances gets a lot of the headlines, and it's very important to figure out how to handle the money. But in my opinion, that was the easiest thing to solve. And most people that worked through this with any kind of reflection will also say the same. Yes, you need to figure out where the money's going to come from and how to value it and the funding mechanisms, all that. But for most people, it's I'm leaving the office on Friday. What am I doing on Monday? And then for the successor, it's like Friday I'm not in charge, Monday I am. And those are really big conversations to unpack. And so that's where the body of work for the book became mostly around how do we connect these emotional pain points to operational or financial discussions and then highlight the fact of why this is important.

Catherine Williams: From the successor's view, let's imagine for a moment that, you know, there may be some folks listening to this podcast that are trying to open up that conversation, if you will, with the founder. And maybe they've tried and it's not moving forward or they're really taking those first steps. What would you say would be a way to sort of open that up as someone who, you know, needs to start that discussion, whether the founder has raised it already or not?

Eric Hehman: Yeah, I, I find that most founders don't go to their successors and say, guess what? I'm ready to leave the business and I'm going to turn it over to you in X number of years. I don't know of many conversations that look that way.

Eric Hehman: So. I think the reality there is that that's why when I was at least sharing some of my story, a lot of successors reached out to me and said, so what do you think I should do? How do I get this conversation started? And so what I found that seems to work when I talk to people about this is look for common ground first. Whether that's in the vision of the firm, whether that's in the values of the firm, whether that's the client service approach, whatever it is that you think you can build commonality with, if you're a successor in this situation and you're watching the runway get shorter and shorter every year because that's what's happening and you're seeing not very much action take place. There's the very first chapter we wrote for the book, because we had to kind of come up with a theme for the book and all these different chapter titles, was "Breaking Inertia." And we wrote that chapter first to share with the publishers, because we felt like that's the crux of the issue, is that there's this inertia that the founder is in and there's an inertia that the successor is in. And the reality is, unless something, you know, Newton's law objects in motion tend to stay in motion till acted upon by an outside force, I mean, unless something changes that inertia, the founder will likely end up in a place they don't want to be, and so will the successor.

Eric Hehman: And so my encouragement has been to the successor to come alongside the founder in a way that is relationally healthy. You know, we talk about this a little bit in terms of just relational equity. Right, that there are a lot of deposits that I had to make into John Henry before I could make a withdrawal, before I can have a tough conversation and him with me. And when it came to succession, it was it was mostly up to me to go to him with, hey, there could be something around the corner that may not be what we both want. And that's either him holding on too long or me not grabbing a hold of and leading. But we had to start with a common ground. And it was his vision. Right. His vision of building this premier financial planning firm in Austin. I went to him and said, look, I think this issue could prevent us from being able to do that. And we talked about that and involved a fair amount of, I mentioned earlier the idea that we're of different, we are complete opposites. I mean, all the personality profiles, 360s, everything you can imagine, he and I are total opposite ends of the spectrum. But it took us going through those discussions and having those conversations.

Eric Hehman: And then we actually went through a book called "Why CEOs Fail." And we went through it together and we had an external person help us just go through that and talk about, you know, I have my own shortcomings. He has his own shortcomings. But based on where the business was, what did it need now? So, you know, the needs of the business became our rallying cry. So initially, it was his vision, me telling him that I really wanted to support that vision, but I was concerned that there was some things that could get in the way of it. So if I'm talking to just the successor now and the founders aren't listening, it's what's the most important thing to your founder? What's the most important thing to your controlling owner? What's the most important thing to the person that you think might be holding on too tightly? Well, figure out what that is and find a way to build some agreement around it. And for us, it was his vision and then it turned into what were the needs of the business. So we went through exercises around what do we think the business needs and talked about operationally what did it need? You know, and what did it need from a management standpoint and what did it need from a business development? And we went through that list.

Eric Hehman: And what it turned into was a two-page document that I put together that was essentially titled Celebrating Success. And it was the front page of the document was all the great things that the business had done. And the second page was all the things that business still needed to do. And it talked about why the vision was important and why the needs of the business were important and how each of us might need to play a different role. And so I think that's where most successors I know have a lot more power than they realize. Not in a bad way, but because they're going to be around the longest. And I think the benefit I had was John Henry was comfortable enough with well, once he understood what our strengths were and we recognized that the business needed someone like him to get off the ground, but it might need someone like me for this stage. It became less about him versus me or me versus him. It became here's what the business needed. And so we found common ground around the business being more important than our own personal agendas. And that was hard. I mean, it wasn't like it was a walk in the park. We got to that place because if his vision was important to him and I wanted to support that, then we could come to some agreement that the business might need something to look differently.

Eric Hehman: So I think that's from a successor standpoint. I think the successors that I talked to are very attuned to what the needs of the business are. And at times, the founders aren't. I mean, if they've, you know, taken a step back or they're not as involved with clients anymore, they’re not as involved in day to day operations, it's understandable that they're not that connected to what the business needs. And I think what that can do is that ignorance can be bliss or a founder or controlling owner if they're not as engaged. And that's where the successor, I think, has the chance to lend their voice to here's a blind spot or here's something around the corner that could hurt us. And succession is a is a great way, at least to discuss it. And so if I'm a successor of a firm where the owners are nearing retirement age and they haven't shared what their plan is, I think it's a fair question to ask. Look, I'm trying to figure out my own career. You know, do we have a plan for what's going to happen in 10 years? I mean, we're financial planners. I think that's the one interesting thing that I think a successor has in their favor, which is what I used was we're financial planners. We give advice to clients every day,

Catherine Williams: Right. Right.

Eric Hehman: about 20 years from now or 10 years from now or 30 years from now. Right. And so what's our plan? You know, what's the conversation that you have for your own retirement or the next chapter of your life? And so.

Catherine Williams: Yeah. So I want to with that, maybe I'll play a little devil's advocate and I'd love your perspective. So for many founders and they sometimes don't articulate this, but the extending the opportunity to purchase equity to become a stakeholder is one way of if not testing the waters, perhaps, you know, really beginning to indicate or signal that they're at least thinking about it. And yet I hear frequently from founders that they've had a hard time getting young advisors, getting those folks that, as you know, you work really hard to get that person, get them in the door, get them trained. They're contributing to your revenue and your firm's well-being and getting them on board with writing checks around equity is sometimes very difficult, and particularly as valuations are really high right now and all that. You know, we all know the landscape we're operating in. So if you're a founder, listening to this is like, well, that's lovely and actually would not be opposed to that conversation being opened up. I've extended equity opportunity and they've not taken me up on that. So what does that mean? I'm curious, your take on that or your perspective on why you think that is or, you know, a ways to maybe address that, if you will.

Eric Hehman: I will tell you what I think and what I've experienced, so I've had a number of friends call me over the years that said, hey, Eric, I'm being offered ownership. Here are the terms. Here's the situation. What do you think I should do? And unfortunately, I've told a number of them not to say yes. And I'll tell you why, and maybe this is a clue for some of the founders. I think there wasn't much else behind it, meaning there wasn't a plan for what that ownership would mean. And I'm not and again, I'm not a person who says everyone should get a seat at the table. That's not at all what I'm saying. I think that's one thing I tell my peer group historically was just because you're an owner doesn't mean you get to make decisions. You have an equity stake in this business doesn't mean you're a manager of the business or you get to decide strategic direction. So don't misunderstand that. But I think what I've seen happen is someone's being offered one percent or two percent. Right. And let's say it's a billion-dollar firm just to make it a decent sized business. But you're being offered one or two percent. But the controlling owners are still going to own 95 percent, let's say. I don't really know if that tells me a story that I'm interested in. But if an owner comes to me and says, look, you know, I plan on selling 20 percent of the company over the next five years or some period of time, and I want to engage you as one of the potential buyers of those shares.

Eric Hehman: Now, I have a story. Now I have something I'm interested in. Right. Like I, I could look at that and go, okay, my two percent this year might get me five percent. No. Two more years from now. And then I might end up with 10 percent in five years or so. OK, I'm really interested. And I want to because what my view on ownership is that when John Henry sold me 10 percent of the company back in 2000, and I'd only been there for three years. He and I both were taking a risk, but it was a risk worth both of us taking. He'd had a business for 10 years that hadn't grown a lot, and all of a sudden it started growing more. I was still going to be a minority shareholder in this business that still revolved around him. And so we were both taking different levels of risk. And I what I find is it's not that my generation doesn't want to take the risk. It's they don't know what the story is. I knew that when I bought 10 percent, I would have the opportunity to buy future shares, not that John Henry said when and how much. But he had indicated to me that as the firm grew, he wanted me to own more of the company.

Eric Hehman: And the one thing that's difficult for me is when I talk to founders of firms that are nearing the end of their career and let's say there's two primary owners and they still own 90 percent of the company and they talk about their next generation owners, which is great. But those five owners only own 10 percent. So the reality is, I don't know if those next generation owners have had much of a voice in guiding the business because they don't have much equity. And I don't know if those controlling owners wanted them to have it right, whereas I think John Henry, his genius, was I'm willing to part with some of this equity because I want to have a smaller piece of a bigger pie. And I think you can help me get there. We talk about this in the book a little bit, the slicing of the pie in terms of it's either current cash flow, it's future equity. And I know of a lot of firms that are plus or minus the same size they were five years ago or 10 years ago that haven't grown a lot or that their ownership makeup hasn't changed much. And I think those two are related. I just I'm a big believer in that, because my friends, I had three friends over the course of about five years leave firms that they were at for more than 10 years because they're either the offer for ownership was more like window dressing, and I’m not being disrespectful, or just was, you know, one or two percent.

Eric Hehman: And it was at a really high rate and it wasn't the best of terms or they just felt like they weren't going to solve the succession. And so they weren't sure if they wanted to be part of that. Having that happen, right? They just they weren't sure if they were going to get across the line as the runway got shorter and shorter and shorter. And I think it's a situation where, I'll just use an example, I'm 46, so two years ago I went to the team here and said I'm going to sell 25 percent of my ownership over the next seven years. And I was, what, 44 years old. And the reality is that it's important for me to have others here own more of the business so that in five to seven years, they have ideas they can bring to the table. They have things that they want to accomplish with the business. And I'm willing to give up the future appreciation of those shares for the future appreciation of the shares that I'll still own. And I think that's the tradeoff that some founders struggle with, is the control of wanting to maintain control of the business, which is different ways you can do that from a governance standpoint. So we can't get to that today.

Eric Hehman: That's a whole other topic. But there's ways you can do that, where you can sell equity but still have the governance kind of control or is that the inertia is so strong that cash flows so good that they're not concerned about future equity as much as they are benefitting from the future cash flows. And so if the company doesn't grow a lot more in equity value, that doesn't concern them as long as they have the cash flow. Whereas my generation is looking at going well, I want to buy into something that's growing. I want to buy into something that has the chance to double in size or triple in size. And if the firm isn't growing and that was one of the cases where someone asked me, I asked him what the growth rate of the firm had been. And they're like, oh, you know, two, three, five percent. I'm like, I don't know. I don't know what's going to change with you becoming an owner. And if this is a good investment, like I don't know if it's a good investment for you if the firm isn't growing. And so I think the I think it's the successors want to see that the firm has more opportunity in the future, or at least as much in the future as it did in the past. And I think some founders don't necessarily portray that to their next generation owners or give them the line of sight to that right where they could actually own more shares in the business.

Catherine Williams: And in the book, you and Tim and Jay talk about, you know, creating a firm or developing a firm, you know, to use to use exact words without founder dependency, you know, and what does that mean over time for you? So obviously what you just described gets to part of that. Is there anything else that you would say if you really want to develop a firm that doesn't have that founder dependency piece to it do you need to be thinking about?

Eric Hehman: One of the first things that happened for us was how we handled inquiries from potential clients. I mean, we were really small then, but I mean, even if we were a bigger firm now and let's say John Henry was still here, I think the message you tell a potential new client says a lot about the team you have or what you're trying to accomplish. Meaning if the founder is the most prominent face person for the firm and represents the firm, most of these firms, I think, historically were built around a famous person model. They had goodwill. They were out in the community, they live in the community. Whatever it was, they were somewhat a famous person, and the work that came to that business was because of that person. And one of the first things we changed was how we marketed the firm, how we explained who we were to people that called. I mean, John Henry used to be, you know, in an advertisement. You know, it was a picture of him. Everything was about his name. Everything was about his reputation. Everything was about his accolades, which those were all extremely valuable. But it didn't change the dependency on him. And that was one of my concerns as a young owner, you know, being 25, 26 years old, going, OK, if something happens to him, I've got nothing. And so very quickly, we had to think about how we message the firm. And while his name wasn't on the name of the firm, if every prospective client thought that they were going to meet with him or that he was going to become their advisor, then in a sense it was still revolved around him.

Eric Hehman: And so that's where we would we had to change the way we oriented what the offering was. Here's our firm. We work in these teams. You might not meet with John Henry when he comes in. We're going to do our best job of finding a way to meet your needs. And it might not be him or it might be him. And so it was him deflecting and endorsing, frankly, the new people on the team to step out of the front end of taking clients. That was one of the first triggers that sent the message to the firm that it didn't have to revolve around him anymore. And so he shared his clients is probably the you know, the short way to say that is that he figured out a way to share his clients, either the clients he had or the clients that he was creating with others in the firm. It just made it so that then those people could benefit from that goodwill and start building out their own goodwill. Then slowly, other people in the firm had goodwill and had their own reputations that could create clients for the business. And so, you know, by the time that we started our succession plan, John Henry was interesting when it came to creating clients, but five years before, he was critical. If that makes sense. And so that was one of the first things that we had to change was how we marketed the firm and how we explained what the offering was to new clients.

Catherine Williams: So I'm going to ask you to step into John Henry shoes for a moment. And relative to John Henry, I mean, yes, you had to develop a vision, a common vision. You both had to see yourself in that vision. I would offer I would add that I think it's really important. Again, you know, at some point you saw yourself in that vision, which is really critical. But he also had to reach a point where he was comfortable with you and others, members of the team stepping into those shoes. And so if he were here today and I were to ask him, what did you see in Eric and others in the organization that gave you comfort around doing that? What would you say or if I could ask you to almost put words in his mouth, so to speak, a little bit?

Eric Hehman: That's really at the crux of it, if I have this take on the way he led, which was gave me space to try things, right? And so if I'm a founder running the business and I think I know how to do everything and I leave very little space for others to solve problems, then I think you're going to continue to be disappointed by the fact that that generation isn't stepping up to solve the problems. But I think it kind of is a self-fulfilling, right? And so if he was, again, he wasn't this, but let's say he was a really good investment, he loved investments, right? And all he wanted to do is make investment decisions of what the philosophy of the firm was. And we wanted to have someone join the team that could be great at making those decisions. But he kept making those decisions. Then there's no space for that other person to prove themself out. And so I think the thing that happens is there was a fair amount of tension around me taking things out of his hands and him letting go of things. And I think that was what made it work. That I was interested in taking things away from him that I thought would help the business, and he was interested in letting me try. And if I tried and it didn't go well, then we'd have to have a conversation about it, right? But if I tried and it worked, then he became more comfortable trusting me, and I think that's part of it is he gave me space to utilize the gifts I had because he knew that those gifts were different than him. And so one of the things that we learned early on was his initial thought was he needed to hire someone that was like him.

Catherine Williams: Mmm-hmm.

Eric Hehman: Right. Just fill his shoes like. And I think that's one of the temptations of a founder is, you know, no one's like me, they're not good at rainmaking, you're not good at investments, are not good at financial planning. And the reality is they might need to be looking for someone that's completely their opposite. And I think that's where he and I, mean dumb luck, whatever you call it, we ended up being complete opposites. But early on, he wanted me to be like him and I thought I was supposed to be like him. And we realized that was just really frustrating for both of us. Like I wasn't going to be like him and I couldn't become that way. And I think what we realized that he might need an opposite more than needed someone that was the same. And that meant that I would take things out of his hands and make him uncomfortable. And I'll give you one example, just because it's a funny one. Again, the business was all his I mean, he owned the whole thing. He went and bought a suit for a speaking event that he was doing. A very charismatic person.

Eric Hehman: He got invited to different speaking events by different associations and stuff. And this was going to fly him somewhere and he wanted to buy a new suit, so he bought a new suit. He charges on the Amex card, the corporate card. And so at the time, I was starting to pay attention to the finances of the firm and just reconcile things. And I went to him with my clipboard, so to speak, as he called it. So, John Henry, we have a problem. I see this charge for this $600 suit, but I don't know what it's for. And he said it was for my speaking event. And I said, OK, well, then now we need to figure this out. Are they paying you for the speaking fee and the travel or are they paying the company for the speaking fee and the travel? And he said, well, they're paying me. And I go, well, then I've got this challenge because, you know, the business is yours. You said for me to look at the business as if it was my own. I either need you to give me $600 for this suit or have the speaking fee come to the business. So he reimbursed the company $600 for the suit.

Catherine Williams: Yeah, I love it.

Eric Hehman: But he gave me permission to look at the business as if it was my own. Well, he had to be OK with actually saying that, and then I had to then get up the nerve to go to him when I saw something that didn't look right. And I think that's where both of those parties can hold back, right? Some of the founders aren't going to give that permission to that next generation. And some of the next generation is going to shy away from having those difficult conversations where it feels like I'm not sure if I'm supposed to cross this line or not.

Catherine Williams: I was saying to a next generation advisor recently, just assume that the first time you have to raise that with the founder, it's going to be an awkward conversation at best. You might even you might even have to say that upfront. Right. But you do have to start building that muscle and building that confidence and. But, yeah, often doesn't happen right away or it takes a long time.

Eric Hehman: Well, and what I will tell you is that would any of us want someone to buy the business from us that didn't have some of that mentality, right? I mean, I think that's where that's where John Henry and I became close friends was he recognized it mattered enough to me to engage in those difficult conversations. Like we used to have the saying, you know, conflict meant we cared. And so if we were willing to have some conflict about something because we both cared about it, and I think that's where I hear, you know, I totally get it, that founders like, look, you know, the next generation isn't doing this or doing that. Well, I think at some point the that's why I said earlier on that the successors, the G2, whatever you want to call them, have a lot more control over this than I think they realize. Not because they can make it happen, but because they can foster an environment where the founder might start looking at them differently and go, you know, maybe they could pull this off. Maybe they do want this bad enough. Maybe they are willing to deal with the sacrifices that I made, I mean it won't be the same, to want to run the business. Because I think that's where, I have four kids and it's like at some point I want them to challenge me on what it means to become an adult or what it means to become independent, because if they don't, can they make it, you know, will they be able to handle it out there? And I think that's I think that's something that I do agree with founders.

Eric Hehman: they want to see that. You know, we're not we're just audio here. But, you know, imagine closing your hands in a fist. Right. And it's really hard to accept help or to give any help when you're holding on to something really tightly. And I think the founder at some point, once the successor, start prying their hands open, if they even they don't want to, to signal the fact that it matters enough that they want what they're holding on to. And I think at that point, the founder then begins to let go a little bit. And that's what John Henry did. I mean, I think the stories I hear of that have gone well it's where the successor really cared enough that they would get right up to that edge of stepping on the founders toes and then step on them and say, look, this is this is necessary. Like, if you want me to be a leader here, that means I have to lead. That means I have to do something that's different or better or an alternative to what we're already doing.

Catherine Williams: And you touched on something a few minutes ago, and I certainly have had the opportunity to hear Tim Kochis mention this, Philip Pallavi talks about, this idea that it may be more than one successor that fills the boat, if you will, for what that founder did all on their own, especially back in the day when they were responsible for keeping the lights on as well as everything else, and so being open to this idea that what you need as a successor may take the form of two or three people, not a one to one, which, you know, I don't know if you have any you can you can disagree with me on that or if you have anything to add to that. But we're seeing a little of that.

Eric Hehman: I completely agree, and that was one of the conversations that John Henry and I had early on in the succession plan. So 2006 I had been there for like eight or nine years. The firm was quite bigger and John Henry's 24 years older than I am. Oh, no, 26 years older. And so, you know, I'm in my early 30s. He's in his late 50s. And we're having this conversation about what's next for the business. And he was like, well, I just want to sell the business to you. And I go, John Henry, I really appreciate that. And, you know, that sounds wonderful, but I don't think that's the right the right solve here. And he goes, and I'm just paraphrasing here, and he's like, what do you mean? I think it's going to take two or three people over the next seven years to help me build a management team where we could take this business over and you could fully retire. And not that he didn't understand it. It's just that wasn't his natural solve. His natural solve was to appoint an heir to the throne, so to speak, and they become the person that takes over. And I looked at it, went, I don't want that job. I don't want to do this by myself.

Catherine Williams: Right.

Eric Hehman: You know, as much as you want that for me to step in your shoes, so to speak, I don't really want that for myself. And I don't know if that's the best thing for where the business is going. And so then, you know, he sold a little bit more of the company to another person and another person. So then by the time he fully retired, there were three of us that own the business when he retired. And I think that was to your point, I think that is a huge area of opportunity for successors and founders to talk through. I mean, I went to John Henry with it and I would tell this in person and we’re still good friends, you know, he did so much for the business that it was going to take two or three people to solve for what the business needed. And so that's part of this, too, is to say, you know, if you're a great advisor and you're a great rainmaker or you're a great investment person and you're a great advisor. And you're a great manager of the business or strategic thinker. Then maybe we do need two or three people to solve for what you were doing, and that's and I'm not trying to blow smoke or anything. I think that's just part of the reality is that it could take two or three people to replace that one person because of all their history and goodwill and community relationships. Strategic thinking, whatever it is, right?

Catherine Williams: There can be a scale and complexity to the business that just demands it at that point, right?

Eric Hehman: And I think what can happen there, too, is that if a founder is thinking no one's ready to take over the business. Well, maybe it's not no one, it's there needs to be two or three people. Here's my take on succession at a whole. If a founder really wants to solve for the future of their business, they'll figure out a way to do it. But if they don't think that they have a person to solve for it, I can see it being a roadblock. And I think the idea that maybe it needs to be two or three people, maybe there isn't one person that can do your job, but maybe there needs to be two or three, which then that can set off its own set of fears is well now I’ve got to train three people and I've got to find three people to solve for this? So I get that if your runway begins to be shorter, you begin to wonder, you know, can I pull this off? And so I think that's where the successors can be helpful to that. And that, you know, what kind of criteria do you have for that person? Is it too difficult to become an owner? You know, the thing that John Henry and I used to talk about was it was never a good decision to sell the business, but it was always the right decision. You know, I mean, it never made financial sense for him to sell me the business. Just like it never made financial sense for me to sell the business. I still believe in it and I still hope it grows. But it was always the right decision to do that,

Catherine Williams: Yeah.

Eric Hehman: because the future of the business kind of depended upon that.

Catherine Williams: It's great perspective. Is there anything that I've not asked about or something that really resonates with you? I'd love to hear your thoughts.

Eric Hehman: Well, the one thing that maybe relates to the last point is just when you're talking about the different roles, there's another thing that shows up in some of these firms where the business still revolves around them. They're the chief advisor to the clients. They're maybe the chief investment officer, maybe they're the, you know, the CEO of the firm and they're setting all the strategic direction so they see all the good ideas come out of their office. And if that's the case, then one of the things that I've noticed across firms is that as those founders or controlling owners aren't absent very much from their business. And so there's this concept that I've thought of quite a bit after the book came out, and it was this idea of a strategic absence. And it's, you know, John Henry, as we're going through the succession plan, I encouraged him to be out of the office. It started off with Fridays out. I mean, Friday afternoons off, and it became a full Friday and then it became like weeks on end. It's something that, you know, founders and controlling owners might take vacations and they might go somewhere, but if they're still checking their email and they're still checking in with the firm or people are still texting them, then the people that they've left back at the office really aren't having to make new or different decisions. They're just waiting until they can get a hold of that person. And so the one thing that I've come across in the last three or four years talking to firms is the successors really want space to try being a leader. And my encouragement to founders is the next vacation you plan or the next time out of the office, whether it's a week or two or whatever it is that before you leave that you empower some of those next generation people with some decision that you would normally make and encourage them to make the decision while you're gone.

Catherine Williams: Yeah.

Eric Hehman: Whether it's a hiring decision, whether it's a take on a new client, whether it's have that difficult meeting with a client, whatever it is, that would be part of them showing you that they can step up to actually use your absence as a strategic exercise.

Catherine Williams: Right.

Eric Hehman: Right. And so I think that's what I'm getting at here, is that I think the founders and controlling owners that want to build a succession plan, one of the easy things they can do before they even talk to their team about a succession plan is to schedule some strategic options, whether it's maybe a sabbatical or maybe it's just two or three weeks out of the office and see how your team function, like give them some assignments that are very important decisions or very important client meetings, whatever they are, and then ask them and tell them not to bug you. You're not going to check email, you're not going to check your phone. They're going have to figure it out. And what was amazing to me, as you start doing that, he wasn't necessarily that forthright about it. I was more encouraged because I felt like I needed it. Like, I feel like I needed the space because he loved his business. He would come to work every single day because he loved it. Right. And so I didn't want to discourage him from loving the business, but I wanted to encourage him to give me and others the chance to lead. And I think what happened over time was he got more comfortable with it. And then by the time he by the time we ended the succession plan, he was out of the office four or five months of the year. But it started off with just afternoons. And I think that's a step that founders and, you know, the controlling owners of firms can do now. If they do it strategically, right?

Catherine Williams: Right.

Eric Hehman: And so my caveat here is, yes, I encourage you to be out of the office, but do it in a way that endorses or builds people's roles up

Catherine Williams: Yeah.

Eric Hehman: While you're gone, so that when you get back, maybe they step into different roles or maybe their roles are slightly more expanded to fuel your succession plan. And so that's I think that's a big part of just one concept. I think that we think about vacations. But the phrase I'd use as think of it as a strategic absence, how do you how can you build the team up and give them tasks that are based on where they're at in their career to see if they're ready? Right. If it's someone that's an owner that you want to be your successor, give them some bigger tasks, have them go hire some people while you're gone or have them, you know, have the big client meetings or have them go give your board presentation or something. And so that you're not accessible.

Because one of the things that I struggled with was as long as John Henry was here, it was like, I respect him. I have deference for him. He's been here forever. I don't want to step on his toes. But once he wasn't around, I didn't feel like I did look over my shoulder and I could make some decisions and I could try things out in a low risk environment. Then he could come back and go. Why did you decide that? I wouldn't have decided that. Well, then tell me, how did you make the decision? So can you teach me something, you know?

Eric Hehman: And I think it became a good way to have me transition into that role in a way that also still honored what was important to him, because he got to be far enough away from the decision to where he wasn't here, but then he got to be engaged in it when he got back so he could see what I did with it.

Catherine Williams: I like it. I wish that we could, as I mentioned, we could spend another hour and a half talking about this. There's so many questions I have for you. But, you know, one of the things I really enjoyed from the book is this idea of picking a legacy goal. And as we think about the founders and that if it's positioned well, it's really not about the end, but really the beginning for a founder. And I, I think about your path and how that played for, you know, worked out for John Henry, but also as you now are looking at your own firm and what that means for the next generation. Something that really stood out to me, look for commonalities. You said look for that shared vision. But this idea of really thinking about a legacy goal and framing the conversation in a way that, as you said, find out what's really important to those founders and help them understand that this isn't the end of something. This is really the beginning. And there's a powerful conversation in that. So I really, really want to thank you for lending your perspective and great insights around all of that. We know there are many successors. Some of them might be fist pumping as they listen to this podcast. And then we have some founders that are breathing into brown paper bags, but we never know because it's scary, right? It's you know, it's a two-sided conversation. But, Eric, thank you so much for taking the time to join us today.

Eric Hehman: You're welcome. Thanks for having me, and I hope it was helpful to the groups to make some progress.

Catherine Williams: Well, I would just to make sure I get the full name in there, because I do want I do think that the pen to paper that you and Tim and Jay crafted is a really fantastic resource for both successors and founders. So “Success and Succession: Unlocking Value, Power and Potential in the Professional Services and Advisory Space” is the name of the book written by Eric Hehman, Jay Hummel and Tim Kochis. So really great to speak with you today. For those of you that are interested in more information about Dimensional and how we work with advisors and investment professionals, you can also check us out at www.Dimensional.com. And with that, we'll catch you next time.