



The Rankin Group, Ltd.

Risk Management: The Human Side

**A Recruiting Strategy
for Family Offices**

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In the search for a seasoned professional to fill a key role in your family office or family business, you look for someone who has the technical expertise to oversee the management of your assets and the personal style and temperament to handle the family dynamics that make these jobs unique.

A poor investment in human capital can become a major expense both financially and emotionally,

In your search for talent, you assess the problem areas in your path - the familiar networking , recruiting, compensation, and human resources issues - but what may not be as obvious is the need for risk management – the number one defense in successful executive hiring.

Most often associated with insurance or investing, risk management is not a commonly used term in executive recruiting. But the most successful organizations are realizing that the intelligent search for top professional talent can benefit from some basic risk management principles.

Winning the war for talent in the family office space requires moving beyond traditional recruitment philosophies. Risk management not only helps locate the right people; it helps develop a sound, long-term strategy for evaluating and retaining top talent. In this market, you need to measure your investment returns – and carefully assess the strategic, competition, behavioral, retention, and compensation risks that can jeopardize valuable human capital each day.

Defining Risk:

A simple definition of risk management might be the practice of avoiding unnecessary loss. In the investment world, risk management can be defined as the assessment of “value at risk.” What is an investor’s risk tolerance, and how can it be measured? In other words, how much money are investors willing to lose before they exceed their risk limit and fire their money manager?

In the executive search world, “value at risk” translates to managing the risk of a bad hire or promotion. You need to think like an investor and consider how much risk you are willing to take on your human capital investments. How do you measure your risk tolerance? How do you capitalize on your strategic advantage as a family office or family business by minimizing the risk and maximizing the success of attracting the right people to build a sustainable, enduring organization?

A poor investment in human capital can become a major expense financially and emotionally. The wrong person will cost you at least three times their salary – plus potential family conflict and untold personal anxiety.

Regardless of the definition, the common denominator in risk management is due diligence. In some ways, executive search takes on many of the same characteristics as venture capital deals. In fact, venture capital firms have begun adding executive search professionals to their valuation teams. Their due diligence now not only assesses a company’s financial picture, but also its human capital. They recognize that their investments are tied to the value of the people running the company, not just the product or service they represent.



Executive Due Diligence

Executive due diligence can make or break the search process. It involves more than finding an impressive resume. One must dig deeper and assess if a person is a good business risk for the long-term. Over time, it's the relationship of the family office trusted advisors that support your family's needs and provide unbiased counsel that creates value. Your employees provide dedicated service to each family member while delivering leadership and operational support for the delivery of leading-edge products and services.

People are the real bottom line.

What's the due diligence process in executive recruiting? Even before beginning, and at every step of the search, one must identify, measure and manage each major area of risk, and there are five categories of risk to consider.

(1) Strategic Risk: Will This Candidate Get You Where You Need To Go?

If you are uncertain about where you're headed as a family and a family office organization, chances are you will have a faulty compass for setting direction for the people you hire. Clarify your family mission, goals and objectives and how they relate to your expectations for your family office or family business. Pinpoint your vision and translate that into terms that can be communicated to prospective employees.

Do you have operating businesses that your family office executives will help manage? Do you seek guidance on philanthropic initiatives or assistance in educating future generations? Or, are your needs focused on the more traditional aspects of wealth management relating to financial and investment expertise?

Whatever your strategic vision, the next step is to take the time to profile your goals in ideal candidate terms. Which characteristics will compliment your family culture and help the family office succeed? With this profile in hand, you're ready to begin the recruiting process. The key is to determine who not only has the finite skills for the job, but also has the natural traits to make a long-term contribution to the family and the family office.

Many people make the mistake of hiring employees for what they know—and later fire them for who they are. Instead, you should hire people for who they are and if they share your family's values. Their skills and knowledge, while necessary, are more fungible. This is a risk control strategy that avoids departures due to inappropriate fit or poor performance.

(2) Behavior Risk: Profile Candidates to Build a Stronger Team

Most of us focus an interview on the candidate's obvious work related experiences and overlook the softer, but critical issues like behavioral style, values and attitudes. However, the way someone acts or how he/she works is as important as the technical and professional credentials possessed. An arrogant loner or prima donna will not do well in a team oriented environment. Technical administrators will not excel in nurturing roles unless they have natural traits that play to that type of job style.

Another factor that can increase behavior risk is the ability to size up people in an interview. Just as most of us are not trained to conduct interviews well, not all candidates interview well. The challenge is to prepare questions in advance that will elicit the information you need about a candidate's technical capabilities and give you the ability to tune into the subtleties of each candidate's personality and style.

As a quick primer, there are four distinct behavioral styles that represent how most people act when they deal with decisions, people, structure and pace, and rules and procedures. Although many candidates have characteristics of two or even three of the behaviors, one will usually stand out as the strongest. What you are looking for is how they are hard-wired to behave rather than how they adapt to being or saying what they think you want them to be or say. When you take this approach and focus on behavioral style, you have a solid process for determining how well suited candidates are for a job, and how they will fit into your family culture and interact with all family members and others on the family office team.

This is not to suggest that executive recruiting requires extensive psychological analysis, but it does help to know how a person is likely to act in certain situations and why. Those who have been involved with the executive profiling process through the DISC program described in this article—or Myers-Briggs, Kolbe, Predictive Index and others—understand that personal characteristics truly do help to distinguish which type of person is well suited for a particular type of job.

For example, entrepreneurs, leaders, and managers tend toward a more forceful, direct, and results-oriented style. Those in the optimistic, fun and talkative category excel in sales, motivation, and relationship building. Steady, patient, and relaxed people foster team stability and ensure that projects get done. And, management of compliance, operational details, and financial risks is best left to those who are precise, accurate, and detail-oriented. When you focus on behavioral traits, you understand why not all administrators are good conflict managers, or why your legal advisor may not be a good business manager.

Too often, the executive recruiting process overemphasizes a candidate's expertise, intelligence, personality or education without concern for their natural traits and way of doing things. Remember, it's who they are, not what they know, that helps you measure your hiring risk. To avoid mistakes, focus on these characteristics:

- **Motivation:** What drives this candidate? Ego, team accomplishment, personal values?
- **Decision-making style:** Is the candidate prone to quick gut reactions or slow methodical processing?
- **Work style:** How does the candidate get the job done? Alone or as part of a team? A single project or multitasking.
- **Interpersonal interactions:** Is the candidate diplomatic and accommodating or direct and confrontational? Do they have compassion and passion for helping others?

The fact is that most people can learn information and skills, but natural traits and behavioral style drive success. You can't expect peak performance from people who don't fit in with the team or who are not well suited for their jobs. When you focus only on functional skills, you limit your choices and run the risk of overlooking candidates that also have strong potential for meeting your job expectations.

(3) Compensation Risk: Provide Realistic, Long-term Satisfiers

How do you value compensation in the recruiting formula? How do you ensure that your numbers are competitive, but not out of line? These are some of the most complicated and talked about issues surrounding compensation risk—the risk of not landing a candidate due to money, or, hiring the wrong person that is motivated by money only.

The problem is not only knowing how much money to put on the table, but also knowing when it's right to put money on the table at all. When you're deep into the heady possibility of snagging a much sought after executive, you run the risk of pursuing a candidate that might not be the right fit for your family or the job. Make sure that your opportunity will play to a candidate's natural strengths and abilities, and that they have the right value and motivation.

Only when you know that you're chasing a candidate for the right reasons does it make sense to take a seat at the negotiating table. Then remember the old saying, "When they say it's not the money, it's the money." Money is always the silent elephant standing between you and the candidate, but it is true that the right person usually moves for the right fit, not just the cash.

The reality, however, is that there is an increasing overemphasis on compensation and the perceived amount of money that can be made working for wealthy individuals and families. This supports an even greater need to carefully determine competitive compensation structure based on a number of factors:

- Start by setting market value standards for the job. How do the responsibilities of this job compare to other positions within other family offices and closely held business of relative size?
- Determine market value for people that qualify for the job against you established criteria. How much are people currently paid in the jobs you will recruit them from?
- Decide on what this job is really worth to your family and the family office.
- Know which components of the salary package are currently in vogue. Are signing bonuses or various types of long-term incentives appropriate? What are standard policies for relocation packages?

Overall, the way to control compensation risk is to structure a package that makes sense for current market demands and sets reasonable precedence for your own organization and family expectations.

(4) Recruiting Risk: Integrate Recruiting into your Business Plan

At many organizations, recruiting begins the moment a top executive walks out the door or at a time of immediate need. Few have integrated a consistent procedure for internal and external recruiting into the annual business planning process. We tend to fill jobs as they open up, rather than thinking ahead and determining what types of people are best suited to meet changing needs over time. A continual focus on building good bench strength is more efficient and effective than on-the-spot crisis recruiting. By having a recruiting strategy, you will be in a better position to determine the key success factors for anyone working with your family and family office. You can also anticipate transitions within the family office that may result in replacement of an existing employee.

(5) Retention Risk: Lay the Groundwork for a Snug, Long-term Fit

Executive recruiting can be an excruciating process, especially for family offices. It takes a major commitment of time and resources to find a short list of top candidates that have the unique skills, experience and background to work successfully with wealthy families in a family office organization. Since each family office situation and the family clients it serves are distinctly different from other family offices, and finding the right candidates that transition well into these roles is challenging, you need to focus early on retention risk. As soon as you have new employees on board, it's time to consider how to protect your investment.

The building of loyalty and commitment starts with the manager/leader— this includes the family governing board and the head of the family office. It's a job that requires a consistent focus on mentoring, communication, feedback, and speed of execution. It translates into sensitivity to human issues and an understanding of generational clashes.

Generational Needs and Conflicts:

In any organization there are Traditionalists, Baby Boomers, Generation Xers and Millennials. Each generational division has its own set of issues and requires a different antidote for retention risk—whether you are looking to retain them as an employee or entice them as a future generation family member to stay engaged in the family office.

Traditionalists (mid 50s to early 70s)

- Don't require constant feedback (no news is good news)
- Get satisfaction from a job well-done and hard work
- Believe that institutions deserve loyalty

Baby Boomers (late 30s to early 50s)

- Devised the annual review as a consistent checkpoint on performance (because they've had to compete with so many others of their generation)
- Are motivated by money, titles, office positioning and perks
- Need to change institutions and put their stamp on them

Gen. Xers (20s to mid 30s)

- Want immediate, unfiltered feedback and instant results
- Require straight talk and good information
- Find rewards in the form of flexibility and freedom to lead a balanced life, while still attaining success and professional stature
- Are loyal to their team, their project/job assignment, or their mentor—not the institution

Millennials (The future generation)

- Sheltered with a sense of being "Special"
- Confident in their generation's power and potential to achieve beyond previous generations
- Focused on team instincts and team bonds
- Live under the pressure to excel
- Support conventional thinking and their parents' values; believe that social rules help



Set up a Recruiting Team or HR Committee

When looking for a professional to run your family office, your recruitment planning team should include family representatives and an outside advisor, who can help you define your needs, mission, goals, and expectations. It is important to engage in honest and candid discussions about what you are trying to accomplish through the family office and how those expectations impact the nature of the job this person will perform.

If you are adding staff to a larger office, the recruitment planning team should include family representatives and the head of the family office. Again, careful assessment of current and future needs will help to clarify job functions and skills required to do the job successfully.

Another difficult challenge is how to deal with compromise. Although you have a profile of the ideal candidate in mind, the odds are against you that you'll find a long list of top prospects with all of the desired qualities and experiences. Be realistic by assessing the tradeoffs and agree on the basics that can't be compromised.

Where do you have some flexibility? Determine how far afield you're willing to go to find a candidate that has the experience, energy and drive to meet your needs. What if you find an ideal candidate that is not able to relocate? Is telecommuting a possibility? Can you coach someone into the job from a junior level? Is communication and education of next generations more important than depth of technical skill on the finance and investment side? What can you outsource and what needs to be handled directly within the family office?

Be a tenacious recruiter and make sure that anyone you work with on the search will continually develop new resources to feed the pipeline of prospective candidates. Also look for candidates from the ranks of people you currently work with, either as outside advisor or existing employee within a family business or an existing family office. Your recruiting risk is minimized when you can hire someone you know and have had a successful relationship with, who already fits your approach to doing things and meets your expectations for performance.

To enhance external recruiting, work with professional HR specialists and/or search consultants that know the private wealth management and family office space. Since these types of jobs are unique and require first-hand experience dealing with the nuances of working with families of wealth, they can guide you to make better decisions about the nature of the job and candidate criteria, and have a process that will evaluate whether someone can transition into a family office role successfully.

Finally, careful reference checking can help you avoid mistakes. Learn as much as you can about the candidate through professional circles and industry networks. Talk with peers, subordinates and managers to determine how the candidate interacts with others and gain a true perspective on their behavioral style and technical expertise. Involve other family members in the process and host at least one informal, social meeting if possible. Run extensive criminal and credit checks.

The best long-term investors know the challenges they face, and they take the necessary steps to minimize risks and maximize returns. The same principles of sound investing are also prudent for executive recruiting....

Be a Long-Term Investor

Don't be a "Day Trader." You'll know that you're a good risk manager and a good hiring manager if the people you hire today stay with you over time. Invest the necessary time and resources to identify and recruit the right people. Then take wise steps to manage your retention risk and hold on to your investment.

Diversify Your Portfolio. Spread out the risk in your portfolio of human capital by hiring a range of different talents. When you take a closer look at who each candidate is as a person, you're less likely to create unnecessary and expensive human capital overlap. Think ahead and make sure you're covered in all key areas.

Build a Sound Asset Allocation Strategy. Configure teams of people who have complementary skill sets and styles. When you balance individual strengths and create team harmony, you manage the risk of losing valuable human capital, and position yourself to better serve a more diverse group of family clients.

Rebalance Your Portfolio. Even your human capital portfolio needs periodic rebalancing. Continually assess and reassess how to maximize each executive's strengths. Remember that retention is based on real opportunities for professional growth, challenge, and creativity. Also recognize that as needs change, you may need to change the types of employees that serve you in various roles within the family office.

Be an Active Investor. Take positive risks. Don't let your recruiting strategy or your portfolio of human resources get stale. Make sure you're always wading into the current talent pool. Know who you are as a family office and the value you bring to your family member clients. Don't be afraid to risk a generous compensation package on a talented executive, who has strong potential for enhancing your ability to manage your wealth in the best possible manner and building the glue to keep your family together as responsible stewards of that wealth for generations to come.

When investors are also risk managers who practice careful due diligence, they often experience the "magic of compounding." This doesn't mean that they can wave a magic wand and become instant millionaires. Consistent smaller investments bring better returns over time. In the same way, no organization can leverage its human capital overnight.

Small Steps to Big Results



The human side of risk management is based on the simple theory that small steps lead to big results. Every little bit that you invest in hiring the right people today will add up to big savings over time. Good hires build on other good hires.

The sooner you make smart investments in human capital, the faster you will reap dividends from having the right people in the right jobs doing the right things. Think and act like an investor, and your business of a family office will thrive.