

Determining the Proper Structure for Your Business

By Stephen A. Saenz

Introduction

Investment professionals often ask me what their teams should look like. How many people should I have? What kind of people? When do I hire the next person? **The answers to all these questions vary greatly from practice to practice and are related to what I call *business structure*.** Structure is the foundation of your business. Having the proper structure for your business means having *enough* people to do the work that has to be done. It also means having the *right* people to do the work that needs to be done. If you take the time to develop the proper structure for your business, questions like these will answer themselves. More importantly, you will have a business that is more organized, runs more efficiently and is ultimately more valuable. In an effort to help investment professionals determine the proper structure for their businesses, we developed a 5-step process:



Step 1: Identify the Core Functions of Your Business

The first and most important step in determining proper structure is to identify the core functions of your business. You do this by developing a **functional organization chart**. Unlike a traditional org chart, a functional org chart depicts the names of business *functions* instead of *people*. It tells you *what* has to be done, rather than *who* does it. You will add the people later.

On the next page, you will find a sample functional org chart for an investment consulting practice. As you study this model, please keep three things in mind:

- This is only an example. Your functional org chart may have more or less functions on it. The key is to identify the primary functions in *your* business and organize your business around them.
- We are not suggesting that you need ten people in your business! Undoubtedly, you will have a lot of crossover here. In some cases, one person will be responsible for more than one function. In other cases, two or even three people will share a particular function.
- As you evaluate your current team, I recommend that you do so in the context of this model.

The main benefit of developing a functional org chart is that you will see for the first time (on paper) what it takes to run your business. Don't be surprised if you say or think to yourself, "Now I see why I'm feeling so overwhelmed. I'm wearing too many hats!" Acknowledging that you have a problem is the first step toward solving it.

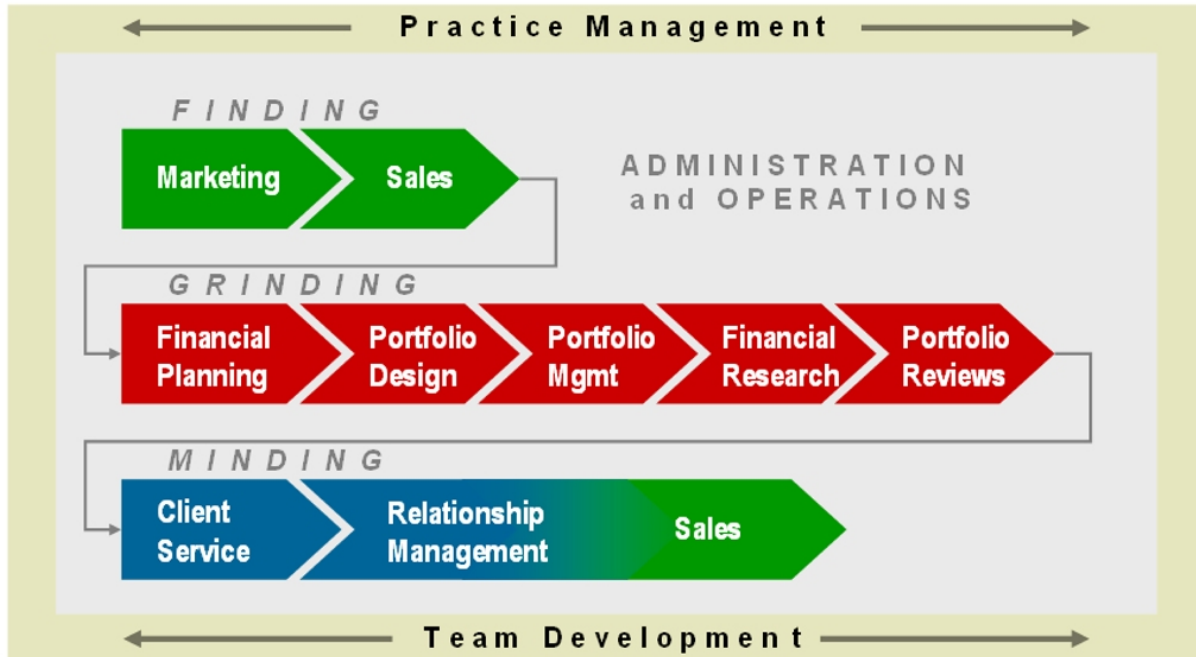
* Author's Note: The idea of a Functional Org Chart came to me in 1995, when I read *The E-Myth Revisited* by Michael Gerber. If you haven't read this excellent book on how to build and manage a successful business, I highly recommend that you get a copy and read it right away.

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Functional Organization Chart (Sample)

Depicting the Core Functions of an Investment Management Consulting Practice



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Step 2: Quantifying Your Workload

If Step 1 doesn't get you depressed, Step 2 will. **Once you have identified the various functions of your business, you need to *quantify* the workload in your business.** This is a painstaking process, but one that will yield some very important information about your business; information that will help you make better decisions about the way you allocate your most valuable resources — time, money and personnel.

Workload is everything it takes to run your business at its *optimal* level. To me, that means having an effective marketing plan; one that gets you in front of qualified prospects on a regular basis. It also means providing world-class investment advice and client service to ALL of your clients, not just some of them. Last, but not least, it means having a high-performance team; a group of people who come to work each day with a shared mission — to exceed the expectations of your clients as well as their fellow team members. When your business runs at this optimal level, you have what I call a World-Class Business. It's a lofty goal I grant you, but one that is definitely worth pursuing. Workload is primarily a function of 5 factors:

1. How many client relationships you currently manage
2. What you do and *should* be doing for your current clients
3. How many new client relationships you establish each year
4. What you do and *should* be doing for your new clients
5. The size of your team (larger teams require more time to manage)

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Please note that we are talking about all the work that *should* be getting done. In other words, this includes all the stuff that's falling through the cracks. Think of this as what it takes to operate your business at its optimal level. You can increase or decrease your workload by altering any of these five factors.

The best way to quantify workload is to break each function down (from your functional org chart) separately. Start by developing a list of all the things that have to be done in each function. **If you want to get accurate results, you should get your entire team involved here.** This exercise will bring your team together by helping everyone gain a better understanding and appreciation of what the other people on the team do. Once you have identified everything that has to be done for each function, the next step is to estimate how long it takes to perform each task or activity. As you work on this part of the process, it will be helpful to distinguish between *client*-based and *practice*-based activities. Client-based activities are those that have to be performed for each client (e.g., developing a financial plan, conducting a portfolio review, etc.). Practice-based activities are performed on behalf of your business or all of your clients collectively. Examples include team meetings, client appreciation seminars, etc. Here are two examples of how you quantify workload:

Example: Say you figure out that your typical portfolio review with a client takes 3 hours to complete (this includes everything from reviewing the client's monitor, preparing for and conducting the meeting). If you have 200 consulting clients, you know that you are going to have to allocate 600 man-hours (200 x 3) each quarter (if you meet with your clients quarterly) for this *client*-based activity. If you have 5 people on your team and your team meets twice per week for one hour to discuss general business issues, you know that you are going to have to allocate 10 man-hours per week (5 x 2) for this *practice*-based activity.

The end result of this exercise will be an accounting of how much time (in man-hours) it takes to run each function in your business. If you take the time to do it right, you will realize that there is a gap between the number of man-hours it takes to operate your business at its optimal level and the number of man-hours you currently have available. This is what I call the **Workload—Capacity Gap (WCG)**. If you have been in the business for more than ten years and/or are doing over \$1 million in annual revenues, there's a good chance your WCG is pretty big. WCG is the *root cause* of many problems and challenges that exist in rapidly growing businesses.

In order to do this exercise right, you need to roll up your sleeves and sharpen your pencil. You should devote at least one full day to this exercise and you **MUST** involve your entire team. You should spend the morning brainstorming, making sure you identify all of the activities and tasks under each function. You can then spend the afternoon estimating the amount of time it takes to perform each function and calculating your WCG.

One of the biggest benefits of quantifying your workload is that it will help you determine where you and the rest of your team should be spending your time. It will also help you see where the gaps (in coverage) are in your business. This, by itself, puts you in a position to make better decisions about your business. With this information, you *could* now determine how many team members you need, what each person should be doing, etc. However, we suggest you complete Step 3 of this process before making these decisions.

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Step 3: Streamlining Your Business (Reducing Your Workload)

Unless you thrive on chaos and enjoy putting out fires all the time, you're probably wondering what you can do to close or eliminate the Workload—Capacity Gap in your business. As you may have guessed, there are two ways to do this: 1) reduce your workload and 2) increase your capacity. Oddly, most people will add capacity before they reduce workload. They throw up their hands one day and say, "We need more help around here!" and off they go to hire someone. Other people (the techno-savvy among us) try to become more "productive" by investing in really fast computer systems with really cool software programs. Both are good examples of working harder instead of smarter.

Don't get me wrong; I love computers as much as the next guy. I live on one. The problem is that when you apply a really fast computer to a really bad system, all you get is really bad results a lot faster. Actually, that's not true. Typically what happens is that no one on your team will know how to use the new system and your business actually takes a giant leap backward in terms of productivity!

A better approach, in my view, is to **do everything you can to reduce workload BEFORE adding capacity**. This includes things like:

- Reducing the number of clients relationships you are trying to manage
- Eliminating non-core products or services
- Simplifying and systematizing everything you do
- Outsourcing work that can be done by less expensive alternatives (than your team)

Once you have done everything you can to streamline your business, you should go back and recalculate your workload. The new (lower) number of man-hours it takes to operate your business at its optimal level will make you feel a lot better. More importantly, the perceived need to go out and hire more people won't seem as pressing. Now, you're working smarter!

Step 4: Assign Job Functions

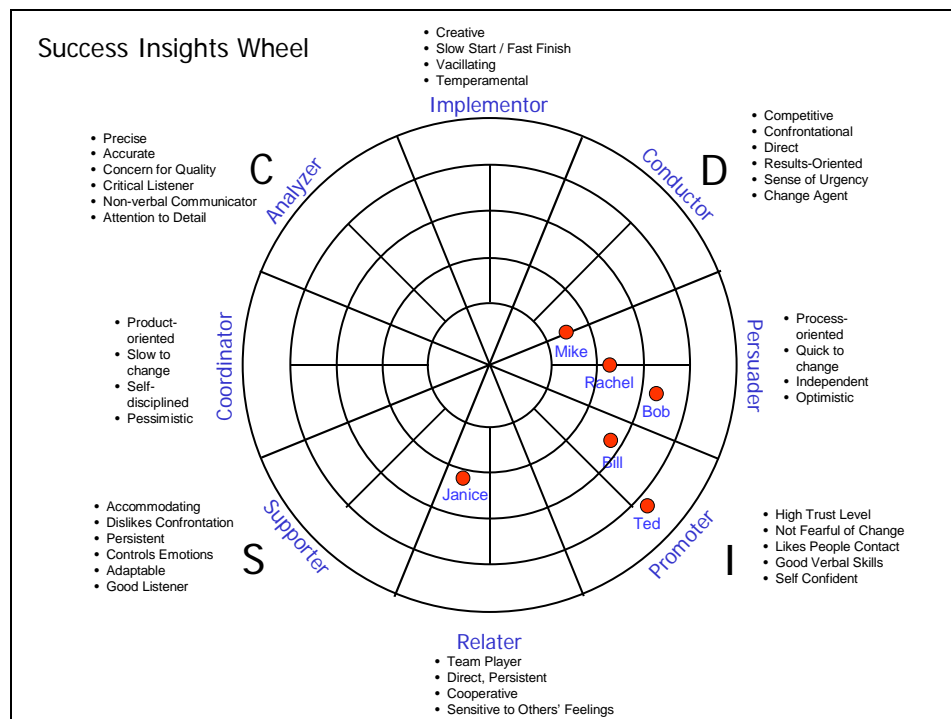
Once you have streamlined your business, the next step is to assign job functions to the various members of your team. As a team, you should look at all the work that has to be done (after recalculating your workload) and have an open and honest discussion about who should be doing what. This is an ideal time to revisit roles and responsibilities for the various members of your team. If you have hired several people over the years, you may find that some of your people are not doing what they were originally hired to do. This is a common cause of performance problems within a team. Somewhere along the line, someone you hired to be your marketing assistant was forced into the role of administrative assistant because the person who was doing that left the firm. It happens all the time.

One of the keys to building a high-performance team is to make sure everyone on your team is doing what they *should* be doing (i.e., taking advantage of their natural strengths). In order to do this, you must first determine what their natural strengths are. You can always try to guess what they are (which is what most people do) but there is a better, more accurate way. The tool we use is a behavioral assessment called the **Style Analysis Report**. This assessment is part of a software program called **Managing for Success***. This particular assessment is based on the DISC behavioral model. The assessment, which you should run on each of your team members, tells you what type of work each person is cut out for. In other words, it tells you what their natural strengths are.

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The **Success Insights Wheel** below illustrates what this looks like on paper. This is an actual team we recently analyzed. We plot each team member's behavior style on the wheel, so you can instantly see what the entire team looks like. The full assessment report (which is about 25 pages in length) goes into much more detail, but the blue descriptors on the outside of the wheel will give you some insight as to the type of work each person is best suited to do.



In this case, you will note that the team is “top heavy” when it comes to Promoters and Persuaders. This means they have a lot of marketing and sales people. Unfortunately, they do not have any Supporters, Coordinators, Analyzers or Implementors. These are the behavior styles that make good assistants, relationship managers, technical analysts and business managers. These are the people who are good at follow-through and make sure things get done. Sales people are great at stirring up a lot of activity, but they're not good at doing the follow up and service work that is so critical to managing a fee-based consulting practice today. Interestingly, this team does about \$2 million in revenues. Not surprisingly, they are very concerned about the lack of organization and client service.

If you compare the behavioral styles on the Success Insights Wheel above with the core functions on the Functional Org Chart on Page 2, you will get a pretty good idea of how these two charts work together. When it comes to assigning the work that has to be done (Step 2 & 3) to the people on your existing team, you want to make sure that the function matches the behavior style. The last thing you want is a Persuader putting together proposals or a Coordinator trying to line up appointments for you.

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Step 5: Add Capacity as Necessary (Hire More People)

At this point in the process, you may have to make some tough decisions. For example, if you determine through this process that one or more team members does not have the right behavioral style to perform a particular function (and there's nowhere else to put them) you may have to find a new home for them. I know this sounds cold, but it's usually in everyone's best interest to face reality and make the change. When this happens (contrary to what you might think) the person affected is usually relieved. They have probably known for some time that they have been miscast for their job. The move can actually be a very positive thing for everyone involved. Obviously, you have to do this tactfully. You should also check with your human resource folks to make sure you're not setting yourself (or your firm) up for a lawsuit. If the situation is handled correctly, you can usually find a good solution.

You may also come to the conclusion (after streamlining your business) that you still need some additional capacity. In this case, you need to make sure you know exactly which function(s) need to be filled before you begin searching for a job candidate. One of the biggest mistakes people make is to hire the first "warm body" that comes along. This may be another employee in your office or firm or even someone's family member. This approach to hiring usually turns out to be a disaster.

A better approach is to carefully assess the position that needs to be filled. You will want to develop a clear job description with a list of expectations you have for the person who will be filling the position. You should also determine the required behavior style for the *position*. The Managing for Success Software program mentioned above also allows you to run an assessment called the **Work Environment Report**. This report analyzes the job itself and tells you what to look for in terms of behavior style. That is, it tells you where on the Success Insights Wheel the ideal candidate should be. Once you know that, you can start the interview process. You should screen your final job candidates by running the Style Analysis Report on them until you find the right match.