WHAT ADVISORS REALLY DON'T LIKE ABOUT THEIR INCENTIVE COMPENSATION PLANS

Financial advisors are a lot like any other employee when it comes to compensation. They need to have their value acknowledged, to be fairly compensated for that value and to clearly understand how their compensation is determined and calculated.

Getting the incentive compensation plan right is critical in any business – but especially in the financial advisory business. As my colleague, Jeff Marsden, writes:

Failing to make the plan both financially and emotionally meaningful to advisors and managers and not getting their understanding and personal buy-in, can create friction in the relationship and have a negative impact on their performance. Exactly the opposite of your goal.

See also: Mistakes Advisory Firms make with Incentive Compensation

I recently had a chance to talk with many advisors at a financial industry event and I asked them, straight up, what they didn't like about their firm's incentive compensation plan. Then, I got an ear full.

Here are some of the top advisor pain points when it comes to their firm's incentive compensation plans:

1. OBSESSION WITH REWARDING THE LARGEST TEAMS

Compensation plans can be structured to reward large teams of advisors which can lead to "teaming" for the sole purpose of increasing payout. When two or more advisors decide to work together solely for the purpose of increasing their payout, this is not necessarily the right thing for their clients, and it can put solo practitioners (who ARE doing the right thing for their clients) at a disadvantage in terms of pay. "Reward the right outcomes not the structure that might accomplish the outcome."

2. COMPENSATION PLAN CHANGES TOO OFTEN

Advisors complain that incentive compensation plans that are changed annually are being changed too often. While minor tweaks could be beneficial, completely changing the compensation plan each year does not allow enough time to adjust behaviors. Many of them feel their firms' don't respect that they practices are long term business and benefit from clarity in focus. For example, an advisor told me: "Last year the focus was on increasing Return on Assets by transitioning to more of a fee-based model, but this year the focus is on improving the quality of your households. Pick one and stick with it for a couple of years."

3. LACK OF ABILITY TO TRACK GOALS SYSTEMATICALLY

Numerous complaints identify the lack of good business intelligence and dashboards to report on progress and opportunities. As one advisor said: "If you are going to compensate me based on the achievement of certain goals, I need to have the ability to keep track of how I am doing. A dashboard that I can view to track my progress would be really useful."

4. TOO MANY NON-SALES DRIVEN GOALS

Many advisors got into the business and have achieved success as sales-driven individuals. While the industry trend has shifted more to financial advice and wealth management, these advisors feel there needs to be greater emphasis on sales-driven goals – not only or primarily non-sales goals. Not one of them said product sales goals, but rather business sales or revenue goals.

5. PLANS ARE TOO COMPLICATED

"The methodology of some targets is just plain difficult to understand," said one advisor. Some compensation plans that have multiple criteria that have to be met with some criteria dependent on others which is a lot of levers for advisors to keep track of. There's something to be said for the K.I.S.S. principle here.

6. ANNUAL VS. MONTHLY LOOK-BACK PLANS

Some advisors expressed a preference for the use of shorter-term thresholds, versus longer-term thresholds for compensation. According to one advisor: "I would prefer to work to achieve a higher level of productivity within a year, and benefit from it more quickly."

See also: Incentive Compensation Planning

It is clear from my discussions that compensation remains critically important factor in the engagement between advisors and their firms and how they navigate their practices to success.

Overall, advisors are looking to their firm's incentive compensation plan for guidance on the strategically important medium and long-term priorities and to provide motivation to achieve the performance objectives. An overly complex and poorly conceived or communicated incentive compensation plan can undermine its effectiveness as a motivator for advisors.

See also: The Destination is Maximum Advice

For more information on how Xtiva can turn your firm's incentive compensation plan into an effective strategic tool, contact hello@xtiva.com.