

## Three Traits Working Against Agency Owners

By Chris Burand

### **Trait 1:**

Much has been made of agency owners averaging 56-57 years of age. Usually when this is the subject of an article, the author pontificates about how dire the future is because agency owners will all be soon selling out. This is poppycock! The average age of agency owners has been 56-58 for the last 25 years.

However, that age is important because strong new research shows that human's financial literacy deteriorates quickly after age 60. As reported on MarketWatch, Oct. 27, 2011, research shows that regardless of gender or education, our brains just don't retain "knowledge of investments, insurance, credit and money basics..." The deterioration amounts to approximately two percent annually. Making the situation worse is that peoples' confidence in their "financial decision making abilities rise with age."

I have personally found completing perpetuation projects more difficult the older the agency owner. Exceptions do exist, but my general observation is that older agency owners do not see money as logically. They see it more emotionally. This makes it difficult to make the right decision.

Additionally, people tend to lose their perspective on the value of money. So for example, sometimes older agency owners do not pay their people as well as they think they do. Another example is that many still believe agencies, any agency, is worth two times revenues, or more! Usually they grow more confident and research shows that negotiating a reasonable deal is more difficult with each passing year.

It has been my experience that beginning around age 62, people also begin fearing they will run out of money before they die. This causes them to make worse business decisions with each passing year. Family owned agencies could collectively fill a tanker with all the tears that have been shed between generations when the parent—not as knowledgeable and more scared and more confident each year—insists the children must pay an exceptionally high price. I have sadly witnessed many families breaking apart as a result.

The moral then is to begin making perpetuation plans before age 60. Those who plan to continue as an executive much past 65 should begin teaching themselves now that younger peoples' ideas and suggestions are likely to be more correct than their own. They should teach themselves to accept reality.

### **Trait 2:**

Significant new research shows that testosterone plays a huge role in how much risk traders take trading financial instruments. When their testosterone levels are high, they take far greater risks than they should and when testosterone levels are low, they take too few risks. This is one reason research is showing women are often better traders.

Similarly, traders under stress for too long find their ability to think rationally is reduced.

So what is the likely result if one takes a testosterone pumped producer who is under a lot of stress? Mayhem.

This explains the morale problems and the errors and omissions (E&O) losses incurred by many agencies that have a rainmaker. If this person is an agency owner, the agency is likely to experience additional problems. The owner-rainmaker's status makes rogue behavior more difficult to address and the rainmaker has access to the agency's money. If a partner tries to rein in the rainmaker, his or her efforts are unlikely to go well without exceptional luck, planning and, probably, professional participation.

Many partnerships have split apart because one partner was willing to take extraordinary risks without rational thinking. Examples I have seen include hiring people without even getting a resume; writing accounts incorrectly or incompletely while betting they'll get the information eventually; writing risks without any real knowledge of the risk; and taking shortcuts and incurring E&O exposures because they believe they are so good no one will ever sue them. I have seen them spend and gamble the firm's money without talking to their partners. I have seen many take on new carriers without any thought of how the agency would meet the volume requirements. Some look at this as a, "Build your dream and they will come" moment, and it might be that, occasionally. Usually, though, it is just hubris.

**Trait 3:**

Power tends to corrupt. Many new studies, particularly ones published in *the Journal of Experimental Social Psychology* as reported in *The Economist*, show that people with power are more corruptible, but people without status but high in power are the most abusive. So if an agency owner has high testosterone, high stress, and, especially, has maintained high testosterone with age, odds are high this owner will abuse power to some extent. Depending on underlying personality traits, they may abuse it a lot or a little, and how they abuse it will vary. Some employees may not even recognize the abuse.

An extremely common example of this is an agency owner who will not invest in quality people who speak their minds and cost money. Another symptom is they often will not adequately invest in infrastructure. The agency will be busy but it will not necessarily be achieving much.

The problem for the agency is this: If the person running the agency is older and therefore making worse financial decisions, stressed and therefore making less rational decisions, and corrupt because corrupt to varying extent goes with power, just how good will their opinions and decisions be? Even if the decisions are decent, if any of these variables were improved upon, would their decisions be better?

**Solution:**

The solution is for owners to build systems around themselves that literally protect them from

themselves for when they become older and still want to continue to build their agencies. This can mean having younger partners. It can mean having a board with power (publicly traded companies with good boards possessing power have been shown to outperform companies with weak boards). It can mean building a system for everyone, including the owners, and then staying within the system no matter what level of confidence the owners may have in their decisions. Sometimes a good solution is to use a strategic coach, but this carries danger. My observation has been that many such coaches take advantage of their clients' confidence, poor rational thinking, and emotional charges by making them feel good about bad decisions. However, with a coach who does not kowtow, this is a great solution for those wanting to handle this personal situation quietly.

For many normal reasons, many agency owners are in mental and physical positions that limit their ability to make the best decisions for their agencies. These traits affect every human being to some degree and of course. However, solutions exist. The only question is whether these owners will create solutions or continually grow confidence in their increasingly irrational decisions.

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