PRACTICE MANAGEMENT: Tips For Forming A Winning Team

By Kristen McNamara
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NEW YORK (Dow Jones)--Professional partnerships are all the rage at brokerage firms. But it takes careful planning, and sometimes help from outsiders, to make sure the team you're forming or joining is a winning one.

It's clear why brokerage firms are encouraging advisors to join teams, in which two or more advisors work together to serve clients. Teams are more productive and profitable for advisors and their firms than advisors going it alone. Different members can bring different talents and knowledge to the investor, improving service.

Moreover, in the fierce competition for wealthy investors and successful advisors, brokerage firms calculate that clients who have relationships with multiple advisors at a firm will remain even if one team member leaves. Teams, says Mindy Diamond, president of Diamond Consultants, an executive search firm in Chester, N.J., make "the assets more sticky."

In forming a winning team, finding a compatible partner is key.

Potential teammates might work in the same office, have worked on a project together or been recommended to each other by a branch manager.

Advisors with similar visions and work ethics and who have complementary, rather than identical, skills and personalities can be effective partners. A rainmaker adept at bringing in new business could, for example, work well with an advisor who enjoys working behind the scenes to develop investment plans.

To determine whether a team would work well together, advisors can turn to consultants inside and outside their firms.

Large brokerage firms, including Merrill Lynch & Co. (MER) and Citigroup Inc.'s (C) Smith Barney division, have practice management experts on staff who can help advisors form and run partnerships.

Merrill Lynch, about half of whose 16,000 advisors belong to a full-time team, offers advisors a multi-step team formation process, which can be accessed through the firm's Web site. One of the first steps is to complete a workbook with questions that address why an advisor is interested in a team, what his or her business looks like today, what it could look like in the future and what the advisor's skills and weaknesses are, says Richard Orlando, director of Merrill's practice management consulting group. Orlando, who has a doctorate in psychology, did his dissertation on family members working together on financial advisory teams.

Advisors answer the questions on their own, then compare responses with their prospective partners. Branch managers or one of Merrill's practice management consultants might also get involved.

Some advisors seek guidance from outside consultants.

Krista Sheets, president of Paragon Resources Inc., a practice management consulting and training firm in Atlanta, has her own set of questions to determine compatibility. She can also help budding teams define roles, responsibilities and expectations.

Advisors who can't articulate the benefits of a partnership raise warning flags, Sheets says.

"There are a lot of people pushing partnerships," Sheets says. "It's not necessarily the right solution for an individual. You really are trying to aim for one plus one equals three - not one plus one equals 1.5."

Prenups and Breakups

Brokerage firms encourage, and in some cases require, advisors who pair up to sign the firms' standard team agreement.

These agreements outline how teammates will divide fees and commissions and how client accounts will be distributed if a team member dies or becomes disabled or if the team breaks up. The language can be somewhat vague, however. Some advisors have an outside attorney review the documents though firms aren't necessarily keen on that.

Advisors sometimes split fees and commissions unevenly, such as when an experienced advisor with a large book of business pairs up with a less experienced colleague.

Paul Blease, director of advanced team initiatives at Smith Barney, suggests advisors gradually move toward a 50-50 split. Parity gives "an incentive for everyone on the team to drive the growth of the practice," Blease says.

Dividing up clients in the event of a break up can be tricky. One approach is for advisors to include with the agreement a list of the clients they bring into the partnership.

That doesn't address divvying up clients acquired while working together, however. There's no clear-cut formula for that.

Branch managers may need to step in and arbitrate disputes over client accounts. If things get really ugly, a legal expert from within the firm might also be called in.

Blease frowns on advisors claiming ownership of certain clients, saying it can undermine team spirit and give advisors incentive to favor some accounts over others.

It makes more sense, he says, for advisors to divide up clients, whose financial situations can change over time, when they break up.

More than one-third of Smith Barney's 15,100 advisors work in full-time teams. Firms distinguish between formal, dedicated teams and ad hoc arrangements in which advisors with different areas of expertise work together periodically.

Professional relationships, like personal ones, end for myriad reasons, Orlando says, such as diverging visions for the partnership, communication break downs, different work ethics and a slowdown in business.

When a business isn't growing, partners question the arrangement. "In the down market, we saw a lot more stress on teams," Orlando says.

Break ups can also require dividing office space and support staff.

It's rare for an advisor to leave a firm due to the breakup of a partnership, practice management consultants say.

If, however, an advisor does leave, it can be extra difficult to bring clients along because the advisor is competing with both the firm and the ex-partner.

That's not always the case though. Diamond, the recruiter, is working with an advisor who's thinking of leaving his firm nearly two years after a long-term partnership ended.

The advisor has become frustrated with the direction his firm is taking, she says, and is upset with managers for not having responded quickly and decisively to his ex-partner's substance abuse problem and ensuing erratic behavior.

The advisor has spent his post-breakup time solidifying relationships with the clients he moved out of the partnership. He shouldn't have trouble moving them to a new firm if he goes, Diamond says.

"At the end of the day, no one can force a client to stay or go," Diamond says. "It's up the client."

(Kristen McNamara writes about business issues facing financial advisors.)

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