AN AMERICAN PORTFOLIOS' GUIDE

The Hiring Dilemma

A Guide to "When, Why and How"

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Hiring a new employee is no small decision. In many respects, it's nothing less than a leap of faith—a deep confidence that: a) a jump in compensation and related expenses will be rewarded with future asset growth and productivity gains; and b) any increase in fixed expenses won't materially burden profitability during cyclical market declines.

At its core, however, it is the belief in self and an advisor's partners. It is a conviction that in working together, with a sound plan, advisors can build something bigger and more meaningful. In this white paper, "The Hiring Dilemma," we examine the many critical decision points that advisors face when contemplating additional staff, addressing a number of important questions, including:

1. "When do I know it's the right time to hire?"
2. "What do I need to consider before hiring a new employee?"
3. "What is the best strategy for adding staff?"

THE HIRING DILEMMA

When to Hire

While the decision to pull the trigger on adding headcount may be a difficult one, there are clear signs when the time has come for hiring additional staff. Here are some of the most common indicators that an advisor's practice needs more hands on deck.

Higher value employees are spending too much time on lesser value tasks.

From time to time, higher-skilled employees may find themselves doing the work of lower compensated workers. This can occur for good reasons, e.g., an emergency situation or a temporary overload of work. However, when it becomes more the rule rather than the exception, profitability can suffer and valuable employees may become demotivated.

Customer service is deteriorating.

There are numerous ways that customer service can slide, from increased response times and delays in problem resolution to a poorly maintained Web site and lagging communications. If poor servicing persists, clients and their assets will flee.

Staff is overworked.

High workloads and longer hours lead to higher payroll costs, tired workers and lower productivity. Employers wishing to retain talented and dedicated employees cannot afford to run their staff in high gear over sustained periods of time.

New demands emerge.

New responsibilities and requirements can emerge from a changing regulatory and technological landscape that cannot always be absorbed by existing staff.

Plans for expansion.

Advisors looking to take their practice to the next level must have the appropriate infrastructure in place to accommodate the higher demand levels of added assets and clients. Trying to absorb the new service demands with existing staff is unlikely to result in that "first good impression" that turns new clients into long-term clients.

Measure Twice, Hire Once

Once advisors have made the determination to hire additional staff, they may want to use this opportunity to re-evaluate the division of labor among employees, establish clear career paths and ponder how best to fill the open position.

Let's take a look at two scenarios in which this multi-dimensional decision approach can help foster more optimal hiring decisions, while improving career mobility for existing staff.

SCENARIO 1 Post-CAPM Investment Advisory, Lee T., Principal and Owner, $110 Million AUM

Lee's practice has grown nicely in the 30 years since he founded his advisory firm; however, backing out market appreciation, asset growth has been flat in the last three years, while the number of clients is up only marginally.

Consequently, Lee has decided to start marketing his services more aggressively. He understands that the nature of reaching prospects has changed radically since he first entered the business, leading him to the conclusion that he needs to hire someone familiar with social media marketing and Web site management, as well as managing electronic communications plans.

His initial thought was to reach outside to find someone with social media marketing skills and experience. After more careful reflection, he remembered that Randi, a college grad he hired a year ago to help with the back office, runs her own online business selling her artwork.

Rather than bringing an unknown quantity from the outside to manage his social media efforts, Lee offered Randi the new position and, thanks to some new technology upgrades, Randi's existing work was distributed among the other staff members without a material increase in individual workload.

SCENARIO 2 SETI Financial, Demora S., Principal and Owner, $53 Million AUM

Demora was fortunate to have founded her financial advisory practice 12 years ago in a vibrant community that has seen a sharp rise in the number of highly-compensated professionals and technology workers. This has led to strong growth in assets and clients, but it has begun to stretch the limits of current staffing. Demora understands that an increase in staffing is needed in order to continue growing and provide the exceptional level of service for which she is known.

Demora has identified her top hiring priorities: a junior advisor, an operations person and a dedicated receptionist. Three hires represent a big jump in fixed costs; however, she feels that unless she increases staffing, her practice will stagnate, and potentially even shrink, over time.

In speaking with industry peers about her staffing challenges, she realizes that hiring three additional permanent employees is not her only option. After learning what other advisors have done to accommodate practice growth, she decides to hire that junior advisor, and contract out the operational duties and receptionist function to an outside service provider. This not only keeps fixed costs from rising too much, but it also allows her to redeploy existing staff to marketing and client service initiatives.

As the above two examples illustrate, there are different staffing strategies for addressing the specific challenges and opportunities of a growing practice. In the remaining insight, we will explore the staffing options advisors have and how an advisor might best apply them to his or her specific set of circumstances.

Buy or Lease: Evaluating the Best Way to Fill a Position

Advisors have two basic options for meeting their staffing needs: hire a permanent employee or engage a contract worker.

The rules and regulations that govern what defines a full-time employee and an independent contractor are not always clear and may be defined differently by federal agencies—the Department of Labor (DOL) and Internal Revenue Service (IRS)—and the state in which an advisor does business.

For example, at the federal level, the IRS common law rules test references 20 factors that help identify whether a worker arrangement is considered an employee or independent contractor relationship. It groups these factors into three broad categories:

A Behavioral

Does the company control or have the right to control what the worker does and how the worker does his or her job?

B Financial

Are the business aspects of the worker's job controlled by the payer (e.g., how the worker is paid, whether expenses are reimbursed, who provides the tools/supplies, etc.)?

C Type of Relationship

Are there written contracts or employee-type benefits (e.g., pension plan, insurance, vacation pay, etc.)? Is the work performed a key aspect of the business?

This determination can become more complicated because the DOL applies its own standard for employment relationship by invoking an "economics reality" test that reviews, among other things: to what degree the functions are essential to the business; the impact an employer may have on the profits and losses of an independent contractor; and the level of skill, judgment and initiative involved in the job performed by the worker.

The advantages and disadvantages of full-time employees and independent contractors are such that there is no universal "right choice." Rather, the best option may depend upon the individual circumstances and preferences of the advisor.

	Independent Contractor	Permanent Employees
Advantages	Easier and quicker to hire and fire	Greater control over worker's output and quality of work product
	Not required to pay benefits, FICA taxes, workman's comp, unemployment insurance, etc.	More loyal to employer
	Ideal for project-specific, short-term assignments*	Greater commitment to work product
	Can "test drive" potential permanent hires	Employees are more familiar with practice's systems, operations, products and services, making them more productive
	May offer skills not readily available	
	When hired through a temporary staffing agency, advisors are relieved of a number of responsibilities, including finding candidates, background checks, payment functions, etc.	
Disadvantages	May cost more than full-time employee on an hourly basis	May be more expensive due to costs of benefits, taxes, training, professional development, etc.
	Since independent contractors can set their own time and may work for others, availability may not always fit with advisor's needs	More difficult to fire
	Revolving door of independent contractors may be less productive over an extended period*	Requires substantial time and effort to hire, including screening resumes, interviewing and performing due diligence on potential candidates
	Independent contractors may not be as loyal as permanent employees	Requires office space

* *By law, independent consultants are limited to 1,040 hours of work annually (about four months of full-time work) for any single employer.*

In view of the competing pros and cons of permanent employees versus independent contractors, it might be most appropriate to:

Hire an independent contractor when...

an advisor's needs are short-term, the work doesn't require much supervision, the duties demand a particular expertise—like Web site development—or the work requires only several hours a week, such as certain administrative tasks.

Hire a permanent employee when...

the need is likely to be long-term, the work needs to be done under supervision, the advisor wants to exercise control over the prioritization of a worker's hours and projects, the work is essential to the business, and where the impact on clients and profits is consequential.

An Alternative—Outsourcing

Though hiring is often viewed as a binary decision (permanent employee or contractor), in many instances there may be a better alternative—outsourcing the work.

Outsourcing work accrues to the advisor many of the benefits of an independent contractor (e.g., no benefits, no tax or insurance payments, and reduced paperwork), while maintaining employee-like control over quality and prioritization through the power of being a customer of the service provider.

Many core functions in an investment advisory practice can be outsourced, from social media marketing and Web management to administrative and operational duties, and there is no shortage of providers who can competently assume these functions.

A prime example of this outsourcing option is American Portfolios' Virtual Administrative Services program, in which subscribing advisors can work with a dedicated "virtual administrative assistant" to perform a wide variety of otherwise time-consuming tasks, including client meeting preparation, new account openings, completing client proposals and service agreements, and managing operational and maintenance items, among other responsibilities.

Given the economies of scale these outsourcing service providers have, advisors may find that outsourcing is more cost effective than hiring an employee or independent contractor.

Profit from a Sounding Board

Advisors facing "the hiring dilemma" do not need to make this important and difficult decision in a vacuum. There are resources available to help advisors arrive at the best approach for their practices. Advisors should talk with industry peers who have walked in their shoes, consider engaging an outside consultant and reach out to your broker dealer.

The Internship Solution

While the summer months tend to be among the slowest of the year in the investment advisory business, it is also true that the bulk of a practice's staff is likely to choose these months to take their vacation time.

For some advisors, hiring a summer intern may be the preferred solution to a temporary hiring need, while others find reward in performing a valuable social service by providing a member of the next generation of workers with real-world experience.

Before hiring an intern, advisors should be able to answer three key questions in the affirmative:

1. **Do I have enough work to keep an intern engaged over the course of the internship?**
2. **Do I/staff have the resources and time to train and work with an intern?**
3. **Will the position be an opportunity for the intern to learn?**

Finding an intern can be done in several different ways, including:

Networking with Clients

Clients with college-age children may be an ideal source for finding a summer intern. Not only is there a greater comfort level with hiring the child of a client, but it has the additional benefit of strengthening the bond between advisor and client.

There are potential landmines, though. Chief among them are when the working relationship disappoints or a candidate is turned down because the number of applicants exceed the available internships or there is a mismatch in abilities or personality.

Working with Local Colleges

A local college is likely to offer business-related majors or courses of study in a needed skill set (e.g., social media marketing, technology, etc.). By working with the school's career placement professional, advisors may be able to tap into a rich vein of smart and motivated interns.

Posting to an Internship Web site

There are a number of different Web sites dedicated to connecting college students with relevant internships, including internships.com and wayup.com; internships can even be posted to more general job sites, such as Indeed.com.

Tapping into the American Portfolios-VEI Internship Program

American Portfolios has partnered with Virtual Enterprises International to connect advisors with highly-motivated, well-prepared and tech-savvy students through the AP-VEI Internship Fellows Program; contact AP Vice President of Marketing Strategy Kimberly Branch at kbranch@americanportfolios.com for more details on this program.

An advisor who establishes an internship may be wondering if it should be a paid internship or an unpaid one. The ethics of offering unpaid internships is an issue on which reasonable people will differ, but advisors should know that the DOL applies a strict "primary beneficiary" test to unpaid internships that includes, among other factors, the extent to which the internship is tied to the student's educational program and whether it provides beneficial learning.

No matter the path you take to fulfill your staffing needs, it's important to realize that, first and foremost, there are options available to you. Such a decision is a potential commitment and investment, so take your time exploring the options, speak with others who have been in similar situations, and choose the course that best suits you, your practice and your clients.

If you have any questions or would like to speak with us about our services, please contact:
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*Based on a poll of registered representatives conducted by Investment Advisor magazine. Broker/dealers rated highest by their representatives are awarded "Broker/Dealer (B/D) of the Year."

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