Registered Rep.

The Pygmalion Effect: The Branch Manager Sets the Tone

By Andre Cappon with Guy Manuel

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Why are some brokerage offices within the same network consistently profitable while others are consistently unprofitable? It's not, as you might suspect, simply because some offices are better situated to snag wealthy clients. What makes the most difference is the quality of the producers in the branch. And that, to a surprising degree, can be determined by the quality of branch management.

Branches tend to reproduce themselves in the images of their managers. Successful branch managers create "cultures of excellence" that breed superior trainees and attract top-tier producers from other firms. A strong branch manager must excel at trainee selection, training, recruiting experienced producers and motivating and leading producers.

The CBM Group, a consulting firm that specializes in the brokerage business, has analyzed branch office performance in many brokerage and life insurance firms and found that the profitable, growing offices are, not surprisingly, simply characterized by high average production per broker. In other words, it is all about getting and keeping strong producers.

Chart I demonstrates that manager success should breed broker success. It refers to a firm that had mostly producing managers. Each point on the diagram represents one of the firm's offices. The production numbers of the biggest producer are plotted on the horizontal axis. In this firm's offices, the largest producer often acts as producing manager and is rewarded with an "override." Average broker production, excluding the biggest broker (removed to eliminate distortion), is plotted on the vertical axis. Note the remarkable correlation between the production of the leader and that of his or her colleagues.

Strong producers are positive role models for their colleagues, especially trainees and younger brokers. Whenever a strong, self-confident producer acts as producing manager, he or she will recruit and retain similarly motivated people.

A "good office" also provides a superior training ground. Chart II shows the evolution of the production of young trainees in a regional brokerage firm as a function of their length-of-service, or years of experience since registration. After an initial training period in a central location, trainees were assigned to various offices in the firm's network. Trainees assigned to “good” branches, or top-tier branches in terms of profitability, outperform those assigned to “average” (second-tier) or “bad” (third-tier) branches.

In other words, a similar trainee will develop better in an office environment that offers superior role models and demands performance than in one that is less demanding.

Clearly, the manager “sets the tone” for the office. Strong managers will create strong offices.

A strong branch manager must excel along multiple dimensions.

Trainee selection is a “numbers game” since it is hard to predict the likelihood of success of a candidate. The good manager, however, should have enough of a “nose” to be able to identify the potential of promising candidates.

Training is a complex, lengthy process. Results will depend largely on the ability and motivation of the trainee. But the manager or coach plays a major role in channeling that motivation. The key to successful training is the so-called Pygmalion effect. The Pygmalion effect, which was described by J. Sterling Livingston in the September/October 1988 *Harvard Business Review*, is the mechanism whereby trainees excel in response to the coach's subliminal message that they are expected to succeed. Research has demonstrated that superior coaches are those that, having made an astute selection of candidates to supervise, believe in their trainees and communicate this to them.

“The way managers treat their subordinates is subtly influenced by what they expect of them,” Livingston said in the article, *Pygmalion in Management*. If managers' expectations are high, productivity is likely to be excellent. If their expectations are low, productivity is likely to be poor. It is as though there were a law that causes subordinates' performance to rise or fall to meet managers' expectations.

Recruiting superior producers is challenging. Superior producers do not jump ship easily, and a potential recruit who is overly eager to switch firms is suspect. (Do they have a “burned book,” compliance problem or pressing need for money?) The effective recruiter selects his candidates carefully and has the patience to wait until they are ready to make a move.

Motivating and leading producers is another delicate challenge. Good producers are by nature insecure overachievers. They will have slow periods when they will experience discouragement. This is when the superior branch manager must jump in and nurture the producer back to strength.

Writer's BIO:Andre Cappon is president of The CBM Group, a management consulting firm specializing in financial services. Guy Manuel is managing director. Cappon and Manuel can be reached at 646-282-0050 or through the firm's Web site thecbmgroup.com.