



Media Release

Number of practice partnerships headed to dissolution – will increase in 2013

Thursday February 28, 2013. Seaview Consulting Directors Bob Neill and David Fotheringham believe that the number of merged practices that will end acrimoniously in 2013 is set to increase as hastily entered into relationships descend into protracted disputation and ultimately dissolution.

For many years the financial services industry has encouraged practices to merge and specialise their activities as a strategy to optimize operational efficiency and respond to industry challenges. The legislative requirements of FoFA and increased expectations of a sophisticated, educated and demanding consumer also contributed to this need for practices to maximize their business activities.

“We have witnessed an increase in the number of merged practices deciding to exit the practice partnership arrangement,” said Bob Neill. “This trend can be expected to continue within the financial services industry into the foreseeable future.”

Seaview Consulting’s Bob Neill and David Fotheringham encourage business owners of merged practices to revisit their documentation as a priority, particularly those aspects which cover exit provisions to ensure they are relevant and provide a clear process for conflict resolution – and a smooth exit should circumstances deteriorate and the relationship is untenable.

David Fotheringham said, “Separation is a part of life and for many businesses it is the right decision as the consequences of protracted animosity within a company can have far reaching effects that drains finances and emotions in equal doses.”

The costs in commercial terms when partnership disputes are unable to be resolved are significant and profound:

- **Legal costs** can skyrocket when the desire to WIN overtakes common sense
- **Commercial value** in the business is eroded and often destroyed
- **Emotional tolls** can be as equally significant as financial costs
- **Public airing of personal and commercial** matters further erodes the well being of the business

According to Neill and Fotheringham the ‘triggers’ for business partnership separation fall into two categories of insurable and uninsurable events.

- **Insurable events** are usually well thought through but difficulties can still arise if procedural aspects around the management of the claims and remittance process do not exist, if valuation methodologies are not well documented, if payment timeframes are not clear and linked to receipts from insurers.

Furthermore, additional documentation is required to address matters outside the insurance process including procedures around the settlement of debts, the release of security or guarantees, and other external factors that may impact the business.

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- **Non-insurable events** including the following examples of the varying reasons behind the desire for people to separate – desire to move to greener pastures; retirement; staleness; a partner not meeting KPI's; loss of trust; hostility; a sudden departure due to family or health reasons; alleged theft or fraud; relocation interstate or overseas; financial stress or external demands

“The difficulty is that no single document can predict the nature or reason for a request to separate. However, this does not prevent a business from documenting the framework in a manner that enables the effective and smooth management of the separation request,” said Bob Neill.

David Fotheringham added, “In our experience, the source of partnership breakups can invariably be traced back to the agreement documentation and absence of agreed exit terms for the stakeholders.”

“The inclusion of a roadmap that articulates a mechanism and outlet to firstly raise concerns and address issues will prevent the *'snowball effect'* that may lead to business destruction and the end of a previously friendly and commercially rewarding relationship.”

Both Neill and Fotheringham concluded that ultimately it is not a single action in isolation that destroys a business relationship but rather the accumulation of a series of seemingly minor issues that is the cause.

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