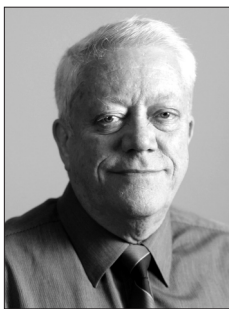
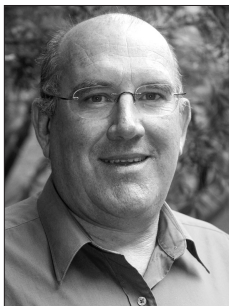


Assessing professionalism: the case of financial planning

Based on a relatively small survey of 78 financial planners and their attitudes to professionalism, our research indicates that financial planning, as practised today in Australia, remains an industry rather than a profession. Using a set of attributes of professionalism derived from the literature, the results from the attitude statements provided by the respondents failed to achieve a satisfactory level of professionalism for any of these attributes.



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‘Imagine a world where almost anyone could drive anyway they wanted – fast, drunk, reckless, whatever – and nothing could be done about it. That’s financial planning today.’ — Dan Moisand, 2008

ALMOST EVERY TRADING GROUP, from the Milk Vendors Association of NSW to the Tourism Industry Council, for example, has captured the words ‘profession’ and ‘professional’ in an attempt to increase their own standing and the standing of their members in society (Neal and Morgan 2000).

To some, this has led to a devaluing of the professional and their professional body. Nowhere is this more confusing than within financial planning. The introduction of the *Financial Services Reform Act 2004* saw a conglomeration of individuals competing as financial planners – from accountants who offered ‘incidental services’ to insurance salesmen to those who formally offered financial planning as their primary service. At that point, all that was required to practise was a licence issued by the Australian Securities and Investments Commission (ASIC), or to become PS146 compliant (both technical competencies) and authorised as a representative of a licensed dealer. The distinction between industry and profession became less obvious.

To examine this problem, the paper draws on the components of professionalism provided by Dellaportas et al. (2005), and constructs a comparison between industry and profession.

First, we provide some definitions of workers within an industry and those in a profession. This definition, provided by Dyckman (1974, p. 40), applies to workers in an industry:

(A group) of persons engaging in the same business or plying the same craft. Membership reflects the trade practiced ... the primary function of which ... is to establish control over the practice of that trade by setting standards of workmanship.

Such industry groups also aim to protect themselves from competition, and thereby assure the economic security and public status of their members. However, this definition fails to recognise the dynamic process typically associated with the learned arts (such as law and medicine), within which practice continually adjusts to reflect the inputs from theoretical and empirical analysis.

For a 'professional' we have adopted the definition of Lee (1990, p. 139), which argues that a professional is a person working within a group that is part of a:

self-regulating occupation that can be used as a vehicle for social control in providing needed skills to match defined uncertainties. It controls its body of knowledge, regulates its members, and encourages client dependency for its services. It is given authority to exercise such power. However, it needs to institutionalise and have its activities legitimated to achieve this state.

While accepting that these definitions provide only a partial explanation of a professional, this paper indicates that financial planning, as practised today in Australia, does not yet qualify for the title 'profession'. However, in order to draw a more substantial conclusion on this, further research will be required, covering a much wider sample of planners/advisers (identifying those with the full professional CFP status) and linked to a national survey.

Attributes of a profession

Central to the concept of professionalism is the idea that a profession has as its primary purpose *the spirit of public service* (Pound 1953). This provides the theoretical basis for public interest theory and the concept of regulation of the profession to protect the public. Dellaportas et al. (2005, p. 13) believe this is embodied in the very essence of professionalism:

(Professionals) ... are educated to possess the competence and skills to deliver their services in the public interest. They are regarded as professionals who have a fiduciary relationship with those whom they service.

Resulting from this need to safeguard the public interest, professional licencing occurs because of some market 'failure' and the belief that licencing will increase benefits to society. The presumption of public interest theory is that consumers of professional services lack complete information about the quality of such services due to the complex nature of the service and uncertainty about the efficacy of competent service. Therefore, public interest theory asserts that professional licencing corrects this market deficiency by ensuring that financial planning

professionals are of a sufficiently high and standard quality. The implication of this is that a professional has, as their prime responsibility, service to the larger community through the practice of their expertise. Such an outward-directed perspective would suggest that the responsibilities of a financial planner to their client, firm, association, fellow members, and themselves, are secondary to the good of society.

A review of the literature relating to professionalism and professionals identified four major attributes, which are relevant to distinguishing an industry from a profession. A schematic of the attributes is given in Figure 1.

Methodology

This research tested the professionalism of financial planning to determine if it fitted the definitions of industry or profession. To achieve the research aims, the data was collected through a structured questionnaire administered to a sample of respondents.

Sample size

Using the 2008–09 North Shore, Pymble *Yellow Pages* (Sydney, Australia), a questionnaire was mailed to financial planning practitioners listed under the 'financial planning' and 'retirement planning' sectors – in total 153 questionnaires (for the remainder of this paper, these two groups will be referred to as financial planners).

Questionnaire design and administration

The design of the questionnaire was guided by the attributes relevant to distinguishing an industry from a profession developed in the literature review. The four major attributes were explored through several sets of questions, each containing a series of detailed items. The first group of questions focused on responsibility, the second considered adaptability, while the third investigated the authoritative basis. The final group of questions explored ethical responsibility. Respondents scored each item in the question on a five-point Likert scale ranging from one: strongly disagree to five: strongly agree. In addition to the questions relating to the attributes, a demographic question was included. A pilot questionnaire was tested through six financial planners located in Sydney's lower north shore prior to being administered to the sample.

FIGURE 1. Attributes that distinguish an industry from a profession

Attribute	Industry	Profession
Public/societal responsibility	To members – self-interest	To society – the public interest
A systematic body of theory	Stability – by accepting the existing knowledge base as providing sufficient information for the practitioner	Creativity – by using the increased knowledge base to add value
Professional authority	Judgment through sanctioned rules	Judgment through superior knowledge
Ethical responsibility	Regulatory – through the belief that regulatory licencing bodies will provide a minimum ethical standard	Self-imposed – through the acceptance of the public interest and the need to protect it

Source: Constructed from Dellaportas et al. 2005.

Form of analysis

Because the Likert scale measures attitude statements, means are an appropriate form of analysis (Veal 2005). This study used attitude statements to explore respondents' attitudes towards a range of issues relating to professionalism. Therefore, means can be interpreted as scores on the degree to which they agree or disagree with the question.

Response rate

Questionnaires were distributed by mail to 153 managers in 122 financial planning firms, accompanied by a cover letter identifying the objectives of the study.

Table 1 shows that of the 153 questionnaires distributed, 82 were returned, of which 78 were useable. This represented a response rate of 57%, with a useable rate of 51%.

TABLE 1. Data collection results

	Number	%
Distributed	153	100
Returned	82	57
Usable responses	78	51

Results and discussion

The descriptive statistics, below, asked the respondents to reflect on specific issues relating to financial planning, as well as gathering demographic information. The results are displayed in Tables 2 and 3.

TABLE 2. Feelings about occupational group

	Yes	%
Are you a member of the Financial Planning Association?	31	39.7
Do you believe a professional association would add value to the professionalism of financial planners?	63	80.7
How would you describe your occupational group?		
— industry	18	2.3
— profession	70	89.7
Would obtaining higher qualifications add value for your financial planning?	45	57.7

Interestingly, while only 31 (39.7%) were members of the Financial Planning Association,¹ 63 (80.7%) believed that a professional association added value to the notion of professionalism. The question relating to occupational groups suggests, quite strongly, that 70 (89.7%) described their occupation as a profession. With respect to higher qualifications adding value, only 45 (57.7%) saw this as an advantage.

Table 3 shows the age distribution of the respondents, with Tables 4 and 5 reporting the size of the business and the years the respondent had been working in financial planning.

TABLE 3. Age groupings

Age group	Number	%
20–29	24	30.8
30–39	32	41.0
Sub-total	56	71.8
40–49	18	23.1
50–59	2	2.6
60 and over	2	2.6

Of the respondents 56 (71%) were under 40, and of that group, 24 (30%) were under 30, indicating a relatively young group.

Table 4 indicates a small business environment with 52 businesses (66.7%) having between one and five staff and 10 businesses (12.8%) having between six and 10 staff.

TABLE 4. Size of business

Size of business	Employees	%
1–5	52	66.7
6–10	10	12.8
11–15	6	7.6

Table 5 presents the years of experience of the respondents. This shows that 47 respondents (60.2%) had worked in financial planning for 10 years or less, with 15 (19.2%) being in the business for five years or less. Only five people (6.4%) had over 15 years' experience.

TABLE 5: Years working in financial planning

Years working	Respondent	%
1–5	15	19.2
6–10	32	41.0
Sub-total	47	60.2
11–15	26	33.4
16–20	5	6.4

Table 6 shows the highest educational qualification achieved by the respondents. Only 13 (16.7%) had attended university, with only one achieving a masters degree.

TABLE 6. Educational qualifications

Qualification	Number	%
Bachelor	12	15.5
Master	1	1.2

The following results represent the importance that the respondents attached to the components of each attribute of professionalism. Each attribute contained six components derived from the literature. Respondents

were asked to rank each component from one: strongly disagree to five: strongly agree. The levels of importance attached to the components by the respondents are shown below in Tables 7, 8, 9 and 10.

Public/societal responsibility

TABLE 7. Importance of the attribute ‘responsibility’

Questions	Mean
The goal of financial planning supports the spirit of public service	3.33
The purpose of financial planning is to protect the public	2.97
Your primary responsibility is to your self and associates	2.13
Your primary responsibility is to your client	1.93
Your primary responsibility is to your firm	1.97
Your primary responsibility is to the greater community	3.47

The results suggest that financial planners are conscious of their professional responsibility to the community and the notion of the public good. The positive components relating to the public good had a mean of 3.47 and 3.33 (agree/strongly agree): while the negative component of self-interest had mean scores of 2.13, 1.97 and 1.93 (disagree/strongly disagree): which also suggests a strong acceptance of the spirit of the public good. The only positive component that scored below the median was Question 2: The purpose of financial planning is to protect the public – with a mean of 2.97.

A systematic body of theory

TABLE 8. Importance of the attribute ‘systematic body of theory’

Questions	Mean
A systematic body of theory is a defining characteristic of financial planning	1.13
A mastery of theory is important in financial planning	1.97
A degree is a necessary prerequisite in financial planning	2.57
An increasing knowledge base will add value to financial planning	3.63
The existing knowledge base provides sufficient information	4.10
A theory base would allow financial planning to evolve with the changing needs of society	2.57

The mean scores for four of the positive components all scored below the median, with 1.33, 1.97, 2.57 and 2.57. The only negative component, Question 5: The existing knowledge base provides sufficient information – scored above the median at 4.10. The only positive contribution to score above the median, Question 4: An increasing

knowledge base will add value to financial planning – scored a mean of 3.63. Overall, this suggests that financial planners do not believe that a systematic body of theory is a necessary ingredient of professionalism, but are willing to accept that increased knowledge resulting from theory could add value.

Professional authority

TABLE 9. Importance of the attribute ‘professional authority’

Questions	Mean
A financial planner has authority derived from a dependent relationship	3.47
Clients have little choice but to trust the financial planners’ judgment	3.10
The lay public rely on the financial planners’ recommendations	3.93
Industry knowledge is the basis for professional authority	4.40
Theory and knowledge provide professional authority	1.90
Improved practice evolves through improved theory	3.30

The results for two of the components of professional authority scored above the median, with 4.4 and 3.93, suggesting that financial planners do believe they have professional authority, but it is derived through a dependent relationship and industry knowledge. The scores below the mean indicate a view that professional authority is not effected through theory and knowledge nor is improved by practice. These scores were for: Question 1: A financial planner has authority derived from a dependent relationship – 3.47; Question 2: Clients have little choice but to trust the financial planners’ judgment – 3.10; suggests professional authority is not influenced by dependency relationships. Question 5: Theory and knowledge provide professional authority – 1.90 and Question 6: Improved practice evolves through improved theory – 3.30.

Ethical responsibility

TABLE 10. Importance of the attribute ‘ethical responsibility’

Questions	Mean
Ethics provide financial planners with standards to resolve dilemmas	2.30
The way in which I act is consistent with my duties	4.13
My advice and actions are truly independent	2.73
I declare all commissions I receive to my clients	2.90
I believe that ASIC rules provide sufficient ethical direction	2.23
I do not believe that any conflicts of interest occur in financial planning	1.87

The responses to the components of ethical responsibility suggest that overall, financial planners have a reasonable sense of ethical values, although may require guidance when confronted with ethical dilemmas. Question 2: The way in which I act is consistent with my duties – with a mean of 4.13, suggests that practitioners believe they act in an ethical way. However, the responses to Question 3: My advice and actions are truly independent – with a mean of 2.73, and Question 4: I declare all commissions I receive to my clients – with a mean of 2.90, suggest otherwise. Question 1: Ethics provide financial planners with standards to resolve dilemmas – with a mean of 2.30 and Question 5: I believe that ASIC rules provide sufficient ethical direction – with a mean of 2.23 suggest that, while accepting that ethical dilemmas do arise, financial planners have little guidance when confronted by problems, and may benefit from a code of professional conduct as a basis for self-policing.

One of the major ethical issues within financial planning is independence. Can the financial planners whose fee or commission is paid by a finance company, insurance company or property developer truly exercise independent judgments? The facts surrounding the collapse of WestPoint in Western Australia and Storm Financial in North Queensland suggest that this is not probable.

When considering each of the responses to professional attributes as either reflecting an industry mentality or a professional mentality, the results suggest that financial planners have a bias towards an industry mentality. Of the 24 possible responses, the mean of 16 reflected an industry mentality while the mean of 8 reflected a professional mentality.

Conclusion

The descriptive and demographic data of the sample suggest that this is a group of young and energetic financial planners. However, it may also suggest a group of business entrepreneurs with little experience. While a large proportion of the respondents believed they were working as professionals, only a small proportion were members of

the Financial Planning Association. The low number of respondents with university qualifications does detract from the notion of a profession but, more importantly, it could exclude respondents from membership of the Financial Planning Association when that organisation introduces degree requirements for membership in 2009 as proposed.

Evidence from the attributes of professionalism exhibited by the respondents failed to achieve a satisfactory level of professionalism. Similar conflicts identified in the United Kingdom also inhibited the development of a financial planning profession (Gaskell and Ashton 2008).

Specifically, with regard to the attribute 'responsibility', financial planners demonstrated a partial conformance to the primary purpose of the professional: the spirit of public service. However, regarding the attribute 'systematic body of theory', the evidence suggests that financial planners did not believe it was a necessary ingredient of professionalism, but were willing to accept that increased knowledge resulting from theory may add value. Likewise, regarding the attribute 'professional authority', financial planners accepted that they had such authority and that it was derived from a dependent relationship and industry knowledge. Nevertheless, they were unconvinced that their professional authority would be enhanced through theory and knowledge, or that this could improve practice. The final attribute, 'ethical responsibility', also revealed little of the elements of professionalism, with financial planners acknowledging a need for ethical direction while admitting to actions generally considered as unprofessional.

This study offers a new focus on the distinction between industry and profession. However, it is also subject to some limitations. First, given the size of the financial services sector, the population surveyed only represented a tiny fraction of the practitioners. Also, the geographical area surveyed is in the middle to upper socio-economic strata, which may not represent a fair cross-section of the financial planning sector. Finally, no attempt was made to weight the professional attributes. These factors could influence the generalisation of the research findings to other groups. ☺

Note

- 1 This was used as a proxy indicator for membership of other industry-based professional associations that require or recommend specialised financial planning knowledge, including Finsia.

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