Conflicts Of Interest In Providing Financial Planning To Friends, Acquaintances And Relatives

Frank C. Bearden[1] *This paper reflects the views of the author and not necessarily those of CNA.*

This case study focuses on conflicts of interest that financial planners may encounter when working with friends or relatives. The subjects were two practicing fee-based financial planners. Their reactions are significant because of the impact such reactions may have on the quality of financial planning delivered. Both planners indicated they felt conflict when working with friends or relatives, and this conflict had a negative impact upon their ability to provide high quality professional service.

Key words: *Financial planners, Financial planning, Ethics.*

Introduction

New financial planners are often required to make a list of friends, acquaintances, and relatives to call on for initial business. As a planner grows in experience, he or she is frequently encouraged to fully develop the resulting business relationships, to the point of soliciting referrals from these persons. The existing relationship a planner has with a friend, acquaintance or relative may interact with a planner's need to be direct, honest, and thorough in his or her work, precipitating a conflict of emotions. The conflict can hinder the delivery of objective, appropriate advice. This study was an effort to gain clarity about the experience financial planners have when doing business with friends, acquaintances, and relatives.

A leader of a financial planning practice must have a clear view of the elements required for the delivery of good practice. This perspective allows the leader to do all possible to create an environment that facilitates such quality work. This research was done also to contribute to the perspective of good practice for the financial planning leader, in the hope that if conflicts of interest were discovered, they could be more fully understood and in some way resolved.

The personal conflict of interest that planners may experience when working with friends, acquaintances, and relatives has no direct review in the literature. The codes of ethics of the Certified Financial Planner (CFP) Board and the Society of Financial Service Professionals, the organization for Chartered Financial Consultants (ChFC) both address conflicts of interest in general. Further detail regarding the treatment of conflicts of interest by these organizations will follow in the literature review.
A conflict of interest within financial planning that has been reviewed in the literature involves the practice of charging fees for financial advice and then receiving commissions for the sale of products that follow the advice (Vessenes, 1997). Conflicts of interest in general have been examined (Carson 1994), as have conflicts within the professional practice of various vocations such as medicine (Jaklevic, 1997), law (Middlemiss, 1998), accountancy (Shapiro, 1997), and investment banking (Hayward & Boeker, 1998).

The scarcity of research or discussion regarding personal conflicts of interest may be due to the development of financial planning as a new profession, as opposed to an occupation. For purposes of this study, occupation is taken to mean the principal business or vocation of one's life. A profession is a specific type of vocation requiring specialized knowledge, intensive academic preparation, and a code of ethical behavior (Merriam-Webster, 1985, p. 817, 939).

The Problem Statement

If doing financial planning work with friends and relatives poses a hindrance to the delivery of high quality work, this can create a barrier to public acceptance of financial planning as a profession. This study was intended to address the problem of the possible existence and degree of personal conflicts of interest that planners may experience, thereby hopefully contributing to an improvement in the quality of work planners do. The study also attempted to fill some of the vacuum in the literature regarding the subject of personal conflicts of interest in financial planning practice.

The Purpose Statement and Terminology

The purpose of this case study was to understand and gain a perspective about personal conflicts of interest, if such conflicts were reflected. In this research,

[1]. *Frank C. Bearden, Regional Vice President, CNA, Chicago, Ill. 60685. Phone: 210-493-5186. E-mail: fcbearden@yahoo.com*

conflict of interest was considered to exist in any situation in which an individual has difficulty discharging the official (fiduciary) duties attaching to a position or office she holds because either:

1. There might be an actual or potential conflict between the planner's personal interests and the interests of the employer, client, or organization, or
2. There might be an actual or potential conflict between the interests of friends, family, or other clients and the interests of the party to whom the planner owes these duties (Carson, 1994, pp. 388).

All contact with a client or potential client from the initial agreement to engage the planner through the delivery and implementation of a financial plan was considered for this research. Friends and acquaintances were defined as anyone with whom a planner has an existing personal relationship. A relative was defined as a sibling, parent, grandparent, aunt, uncle or cousin.

The Research Questions

The research questions for this study began where the literature about conflicts of interest left off, with direct consideration about personal and familial conflicts within financial planning. The overriding question this research sought to consider had two primary dimensions:

1. Does doing financial planning with someone with whom the planner has a preexisting personal or familial relationship cause conflict with the planner's ability to do high quality work? High quality work was assumed to be a financial plan that is thorough in span and depth of client concerns and financial data, with pertinent financial recommendations.
2. If pre-existing personal or familial relationships does represent a conflict, is such conflict of a degree as to seriously impair the planner's capability to deliver high quality work?

The secondary questions were:

1. What areas of the financial planning process produce the most conflict?
2. How is the planner likely to react to conflict in these areas of the planning process?
3. What are common errors of financial planning that may result from personal or familial conflicts of interest?

Literature Review

Conflicts of Interest in General

Carson (1994) produced a comprehensive discussion of conflicts of interest. Carson provided a definition of conflict of interest that was quoted in the definitions used in the Purpose Statement. Carson mentioned a person having "difficulty discharging the official duties" of his or her position or office due to actual conflicts or perceived conflicts between personal interests and official duties. This "difficulty" was the quality to be considered in the interviews in this study. Other literature considering general conflicts of interest not specific to professions or occupations included directors on corporate boards (Rock, 1996), family businesses (Ward & Sidwell, 1998), and corporate officers (Zehr, 1995).

Conflicts of Interest in Financial Planning

The CFP Board's document *Standards of Professional Conduct* addresses the issue of conflicts of interest. Pertinent to this study is the fact that the definition of conflicts of interest includes not just financial related conflicts, but personal conflicts as well: " 'Conflict(s) of interest(s)' denotes circumstances, relationships or other facts about the CFP designee's own financial, business, property and/or personal interests which will or reasonably may impair the CFP designee's rendering of disinterested advice, recommendations or services." The prescription for responding to a conflict of interest is limited to enjoining the planner to "disclose conflict(s) of interest(s) in providing such services." (Certified Financial Planner Board of Standards, 2001).

The *Code of Professional Responsibility* of the Society of Financial Service Professionals (SFSF) does not explicitly define conflicts of interest, although examples of conflicts are given, but offers the same directive for dealing with them: "A member shall disclose conflicts of interest in providing such services." (Society of Financial Service Professionals, 2001). No directive is made by either organization for a planner to recuse himself or herself from work with a given client due to a conflict of interest. In application A1.3c of Rule R1.3 regarding conflicts of interest, the SFSF code does provide an example in which recusal from soliciting professional service is suggested.

Both organizations base their ethical directives upon the principle of fairness: "A CFP designee shall perform professional services in a manner that is fair and reasonable to clients, principals, partners, and employers . . ." and "In a conflict of interest situation, the interest of the client must be paramount." (Certified Financial Planner Board of Standards, 2001).

Research regarding conflicts of interest in financial planning tends to focus on the financial conflicts inherent in the fee-based arrangement. The planner charges a fee for providing a financial plan, and then collects commissions and fees from products sold in the implementation of the plan. Slater (1990) provided a thorough review of the financial conflicts of interest in financial planning. Blankinship (1990) and Bearden (2000) have written about the importance of full disclosure of the financial conflicts of interest a financial planner brings to a client. Wilson (1988) stated in his research that the primary objectivity of financial planners is lost due to the conflicts of interest created by rendering advice and simultaneously selling financial products.

Conway and Starner (1986) and Vessenes (1997) emphasized that examining conflicts of interest will aid a planner in avoiding litigation from an unhappy client. Cruz (1997) reminded consumers that fee-based planners might not disclose the commissions they receive from product sales, whereas fee-only planners do not receive commissions. Yip (1997) countered the fee-only assertion with evidence from a survey that indicated that 60% of planners claiming to be fee-only actually earn commissions from products.

LeBlanc (1996) described an effort by a major financial planning firm to remove as much of the perceived financial conflict of interest from product sales by moving to more fee-related activities. Morgenson (1990) recounted the history of a well-known financial planner who had encountered numerous lawsuits and arbitration cases due to allegations of inappropriate commission-paying financial product recommendations. Schwartz (1988) reported that in the mid 1980s, investors lost over $400 million due to abuse and fraud regarding financial products recommended by financial planners.

Gibbs (1995) cited conflicts of interest that occur when a financial planner brings in accounting and legal firms as specialists. He stated that the planner must very carefully identify the work he or she is responsible for and state in writing any action to be taken in the event of a conflict of interest with the accountant or attorney. Seglin (1987) discussed the marketing of financial planning firms by public relations agencies, noting the importance of inquiring about any conflicts of interest the agency may have with the planning firm.

Thus, the literature regarding conflicts of interest and financial planning treats conflicts that exist because of the way the planner is compensated or the work is done. I could not find any published discussion regarding conflicts that could arise from preexisting personal or familial relationships or any effort to measure the existence and impact of such conflicts upon the deliver of professional planning service.

Conflicts of Interest in Professions/Occupations Other Than Financial Planning

Literature abounds concerning conflicts of interest in other professions and occupations. Shapiro (1997) discussed the importance of rules regarding conflicts of interest in accountancy, and Marcuse (1998) and Merrill and Faoro (1990) did the same regarding architecture. Miller (1991) discussed conflicts of interest in banking as a possible result of deregulation. Subtle and not so subtle conflicts of interest in biotechnology and academic science were reviewed by Abraham and Sheppard (1999), Barinaga (1992), and Etzkowitz (1996). Christensen and Pasch (1993) did research on conflicts of interest arising in clinical psychology within marital conflict. Slavin and Kriegman (1998) discussed conflicts of interest within both the patient and analyst in the process of psychotherapy.

Hayward and Boeker (1998) did research on the resolution of conflicts of interest within investment banking firms. Kurland (1991) presented the argument that the straight-commission compensation system creates a conflict of interest between a financial salesperson's allegiance toward his or her client and the employing firm. Todd (1998) reviewed obvious and subtle conflicts of interest within the investment industry, and Duska (1999) pointed out conflicts of interest in the prevailing compensation systems within the life insurance industry.

Law and medicine were the professions most researched regarding conflicts of interest. Many professional and ethics codes prohibited dual or multiple relationships with clients, including friends and family. Dual or multiple relationships involved conflicts of interest. Harris and Valihura (1998) probed the conflicts of interest when outside legal counsel also serves as a director of the client organization. Holland (1993) reviewed a court case in which the law firm of a school district was sued because the firm also represented the securities firm that underwrote the school district's bond issue.

Lazega (1994) reviewed conflicts of interest in

American business law firms, and Middlemiss (1998) discussed conflicts that arose with captive law firms, which were owned by large accounting firms. Mure (1989) pointed out the conflicts of interest in multidesignation practices of lawyers working in together with financial planners in one firm. Pope and Kim (1998) reviewed the conflicts of interest if a lawyer represents a client against a former client. Wolper (1996) considered the conflicts when an attorney represents two conflicting points of view of two separate cases in the same court.

Within research in medicine, Rabkin (1981), Rodwin (1995; 1998), Backlar (1996), and Emanuel (1999) considered conflicts of interest in the medical-industrial complex in general and the provider/patient relationship of managed care. Gelwick (1992) reviewed the famous "Dax Case" in biomedical ethics, considering possible conflicts of interest in dealing with a patient's request to die. Gunsalus (1993) and Little (1999) emphasized the importance of maintaining research integrity and sound ethical practice in medical research, thus avoiding conflicts of interest. Redlich and Mollica (1976) reviewed the problem of conflicts of interest in therapeutic goals with psychiatry.

Rodwin (1991) considered physicians' financial conflicts of interest and the implications for patients, physicians, and public policy. Rodwin (1992) described the American medical profession's response to financial conflicts of interest, and Jaklevic (1997) provided research indicating that one in four physicians felt a conflict of interest between helping patients and protecting his or her income.

Montgomery and DeBell (1997) addressed the conflicts of interest presented by dual relationships of pastor and counselor in pastoral counseling, and Foster and Pearman (1978) considered conflicts of interest within social work in health care by addressing the funding of patient advocates.

Methodology

Participants

Two participants were interviewed. Both participants were registered investment advisor representatives with experience in the practice of financial planning. They were chosen because of differences in gender and length of planning experience. One planner was a male with approximately two years of financial planning experience, who had been in the health care field in a former professional life. He had begun work on a master's degree in business administration. He held the required licenses to be a registered investment advisor (or registered investment advisor's representative) of Series 7 and Series 66, as well as the life and health insurance license for the state of Texas. He had passed the first of five courses in a CFP Preparation program and was pursuing the remaining courses and the CFP examination.

The second planner was a female with over five years of experience. She held a master's degree in a health care field. She held the same licenses as the first planner. She also held the chartered mutual fund consultant designation (CMFC) reflecting expertise in mutual funds. She had passed all five courses in a CFP Preparation program and was preparing for the CFP examination.

Both planners were told that their participation would be kept anonymous by removing identifying characteristics. They were told that the interview would be recorded and that they could have a copy of the results of the study if they desired. They were given an informed consent form (available from the author.)

Each participant was to be involved in a interview expected to last approximately an hour. The two participants were the only persons asked to participate.

Data

The data were gathered from answers to semistandardized questions (Appendix,) with unscheduled probes often following the questions, in order to more fully understand the subject's experiences in working with friends, acquaintances, and relatives. The interview questions were designed to address the two primary and three secondary research questions, while giving the participants encouragement to expand their responses to other related areas. The questions were directed to each participant's own point of view, so responses would be a developed outward from each person's style of practice. For example, the second question was: "If you have felt conflict, in your view has it seriously impaired your ability to do high quality work?" "If yes, please tell me how so?" The interviews were recorded and transcribed.

Setting

The interviews were conducted in a private room, completely out of auditory or visual scrutiny from professional supervisors or associates. This type of location was chosen so as to fully encourage the subjects to reflect their own experiences, attitudes, and opinions, as opposed to those of their professional supervisors or the firm of their employment.

Analysis Techniques

The analysis followed the direction and spirit of the ten principles and practices of analysis described by Tesch (1990). The steps in the analysis used the tools of editing analysis methods. The first step in the analysis involved identifying and isolating the preconceptions and assumptions of the researcher. These underlying assumptions and notions were brought to awareness and segregated before reviewing the text material. As a second step, the text was then reviewed, without a preformed template or codebook. Instead, the data was searched for meaningful elements (meaning units) that were then coded.

The third step involved grouping related meaning units into categories. The categories of meaning units were then coded (coding available from the author). The fourth step involved recognizing patterns within categories and grouping these into themes. When these steps were completed, the text material was reviewed for additions and corrections. Some changes were made to meaning units and categories. The resulting themes formed the basis of the Results section of this study.

Verification

The verification practices of this study were intended to make clear the validity, reliability, and generalizability of the interview findings (Creswell, 1998). This study used two primary methods of verification. The first involved clarifying the researcher's assumptions and bias at the beginning of the study, so that the author's biases, history related to the issue being studied, and theoretical orientation were made obvious. These factors are stated in the Introduction and should be viewed as additional data to the responses of the participants. A second verification procedure was the use of rich, thick descriptions.

Results

Several themes resulted from consideration of the two participants' comments. These themes developed from a natural blending of the categories that arose from meaning units. The following were the most obvious issues.

Both Planners Felt Conflicts of Interest in Working with Friends, Acquaintances, or Relatives

With little hesitation and a strong sense of certainty, both participant planners indicated they felt personal or familial conflicts of interest in working with clients who they previously knew or to whom they were related. They spent little time discussing the existence of such conflict, seeming to assume that its existence was obvious, and were more interested in describing the conflict or its affect upon their work.

Clients Were Hesitant to Disclose In-depth Information

From both participants' comments, clients with pre-existing personal or familial relationships with the financial planner were often hesitant to divulge in-depth information, particularly information that might prove embarrassing if known to others. One participant labeled these personal matters "dirty laundry."

> I don't think they are as apt to fully disclose everything that is going on because they don't want you to know all of that and then they see you at the family gathering or something like that and then you know all their dirty laundry.

This planner felt that the client perceived he might divulge such sensitive information to friends, acquaintances or relatives held in common with the client.

The second planner made a similar point in a different manner:

> I find it difficult to, uh, request the in-depth information that is required to complete a comprehensive plan from friends and relatives and have run into some resistance from them in trying to do that.

This planner began with her own hesitancy to ask for the in-depth information, concluding with the resistance that the client himself or herself also provided. Both planners seemed clear that clients with prior personal or familial relationships with the planner have this hesitancy of disclosure. What is not known is if the hesitancy one of the planners felt was due to her sensitivity to the relationship she had with the client or her awareness that clients with prior personal/familial relationships with planners usually have this disclosure hesitancy when they enter a planning relationship.

One participant stated that the only remedy he had for such hesitancy was simply mounting the nerve to ask again for the information. This planner was involved in asking for more disclosure. In these experiences, the planner expressed little expectation of additional disclosure, which usually turned out to be an accurate expectation.

Planning Result: The Best Plan Possible with Inadequate Disclosure

A third theme emerged from providing financial planning for clients with prior personal or familial relationships with the planner. This theme was the reflection by both participants that, when provided with what they perceived as inadequate disclosure of information, the resulting plans they provided were the best work possible with the limited, inadequate data provided. There was a difference, however, in the two planner's attitudes about this conclusion. One planner had a position of resignation, noting that the planning he provided was like making the most of a difficult situation. He indicated that he made the client aware, by strong inference, that this method of planning, with incomplete information, was not the preferred approach. He expressed his thoughts this way:

> You do the best with what information you are given . . .always making sure that you let them know that, "with what you have given me, this is what I suggest," or the old garbage in garbage out, saying, "this is only as good as the information you have given me" so they can judge it on their own. They are spending the money for it, they may kind of drive the system there, I guess.

The other planner expressed more uneasiness with doing financial planning with incomplete information. She described her thoughts this way:

> If you don't have complete information, you're never quite sure that the recommendations you are making are completely appropriate for that person or family.

As a kind of afterthought to providing the best plan with inadequate information, both planners stated that clients without prior personal or familial relationships with the planner were likely to reveal more of their financial and personal information.

Planners Had Mixed Feelings toward Working with Friends, Acquaintances, and Relatives

In light of the two planners' reflections of client hesitancy to reveal information and their summation of the resulting plans as being less than complete, the researcher expected these two planners to have clear negative inclinations toward working with personally familiar clients. The results and the next emerging theme reflected otherwise. The two planners interviewed expressed mixed feelings working with persons with whom they had prior relationships. There were benefits and drawbacks.

Each planner felt a different benefit for working with this type of client. One planner mentioned the benefit of the lack of initial awkwardness when beginning work with a new client. He enjoyed not having to go through the uneasiness of getting to know the client first, before discussing the client's concerns and goals. The second participant felt that many of her personally familiar clients, particularly those who were relatives, would probably not have sought professional financial help without the prior personal relationship. She clearly felt this conclusion was a benefit to her as a professional, for it affirmed her desire to be of service to others in need.

Countering these benefits the two planners noted two drawbacks. The first drawback mentioned was the frustration one planner felt when a client held back needed information. This proved difficult for her, making it hard for her to maintaining the motivation needed to complete the financial plan knowing that the information provided was incomplete.

The second drawback discussed involved the discomfort perceived by the other planner when a personally familiar client showed hesitancy in saying no to employing the planner. He stated his frustration in this manner:

> Asking them for the business part is really hanging yourself out there because if they don't want to do business with you, it is going to cause, I think it is inevitable that it is going to cause some kind of strange feelings, at least, when you see them socially or with the family thing.

In addition, this planner revealed his own hesitancy to ask such a prospective client to engage in a financial planning relationship. Perhaps, as in the case with the other planner when asking a personally familiar client for information, the reasons could be two fold: The planner may have been sensitive to the prior relationship he already had with the prospective client. In contrast, his hesitancy may have been a response to his prior experience that such a client often feels hesitant to be candid when a friend, acquaintance or relative solicits professional employment.

The same participant clearly felt that potential clients with no prior personal relationships with a planner were much more at ease in refusing to engage in a financial planning relationship than potential clients with prior relationships. In addition, this planner indicated an appreciation for the candor of such non-related potential clients when they did refuse to commit to planning service.

Debt, Income, and Insurance Areas Fostered the Most Conflict with Clients

When dealing with friends, acquaintances or relatives, another theme surfaced, revealing that personal debt, income, and insurance were the areas said to provide the strongest sense of conflict between the planner and the client. Debt, income, and insurance information may have been part of the "dirty laundry" mentioned earlier, in which a client felt that he or she may not have acted responsibly in the past and was hesitant to reveal the same to the planner. Conflict related to insurance also occurred when one planner attempted to communicate insurance recommendations.

When one of the planners felt such conflict, he stated that more than just restoring comfort to the relationship motivated him. This planner revealed that he was often also motivated by the product sales he had planned to recommend to the client later. The success of these recommendations was highly dependent upon the client's goodwill toward the planner. In response to these motivations, the planner employed three means to relax the client and provide conflict resolution. First, he reaffirmed the strict confidentiality of the information requested. He then restated the information needed. Finally, he began to accept approximate answers to very specific financial questions. The planner affirmed in the case study interview that whenever possible he acquired the detailed information the plan required.

The second planner took a similar approach to conflict, stressing to the client the importance of the information requested for doing appropriate planning. She then made the request to the client again. If the client did not comply with the second request, she did without the information, if at all possible, in preparing the financial plan.

Neither planner participant revealed much success in overcoming client hesitancy to provide needed debt, income or insurance data from clients with whom the planner had a prior personal relationship. One of the planners reflected the same unsuccessful results in communicating insurance recommendations to clients with prior personal relationships.

Plan Errors Tended to be in the Recommendations Section

A final theme was noted regarding plan errors when working with friends, acquaintances or relatives. Both planners interviewed indicated that they were more likely to make plan errors with this type of client. These errors, they felt, were probably in the recommendations section. One planner indicated that a lack of pertinent information often led her to overstate needs and recommendations:

> With some relatives who are unwilling to reveal or put all assets under my management or even to reveal what all the assets are, I feel like I may be making recommendations that they need to put away more, say, for retirement or college planning than they need to because I don't know what the other assets are . . . So I may be overstating a need that doesn't actually exist . . . if I knew of the other assets.

The other planner interviewed indicated that, in dealing with family members, recommendations were sometimes influenced by the expected final destination of client assets. For example, if a relative who was also a client had a large stock portfolio to be shared with the planner upon the client's death, this could have influenced the planner's investment recommendations. The influence could have been toward a more aggressive or more conservative recommendation, depending upon the client's current investments and the planner's own investment disposition. This planner indicated that, when this occurred, the financial planner's own goals rather than consideration for his or her client's well being shaped the financial plan.

Discussion

This section of the research project will provide a summary review of the limitations of the study through the biases and assumptions. Then the two primary and three secondary research questions will be reconsidered in light of the data gathered. Finally, the section will consider possible conclusions and make suggestion for further research, using pertinent literature done to date as a beginning point.

Limitations of the Study

This was an exploratory study with only two participants. Despite the small sample, I believe that the information gathered regarding personal and familial conflicts of interest can stimulate useful insights for financial planning practitioners. The results are interesting enough to justify a study on a larger scale.

I expected that the answer to the third question in the interview would be negative: "Whether you have felt conflict or not, how do you view working with friends, acquaintances, and relatives as financial planning clients?" However, both planners expressed mixed feelings regarding working with these sorts of clients.

Does Doing Financial Planning with Friends, Acquaintances or Relatives Involve a Personal or Familial Conflict of Interest?

The first and most basic question this research attempted to answer was:

> Does a personal or familial conflict occur when financial planners do work with friends, acquaintances or relatives?

The two financial planners participating in the study stated that they experienced a conflict frequently enough working with personally familiar clients to say it exists.

If There Is Such a Conflict, Does It Seriously Impair the Planner's Ability to Deliver High Quality Work?

Beyond confirming indications of a personal conflict of interest, the study then attempted to discern if such conflict impaired the provision of high quality financial planning. The planners interviewed stated that they thought the conflict did have this sort of impact, and the impact was most felt in the gathering of information phase of financial planning. The possible significance of these reflections can be more clearly seen by comparing them to the CFP Board’s standards for practice for gathering client data.

According to the CFP Board, the process should involve the following two steps:

> *Determining a Client's Personal and Financial Goals, Needs and Priorities*
> Prior to making recommendations to a client, a financial planning practitioner and the client shall mutually define the client's personal and financial goals, needs and priorities. In order to arrive at such a definition, the practitioner will need to explore the client's values, attitudes, expectations and time horizons as they affect the client's goals, needs and priorities.
>
> *Obtaining Quantitative Information and Documents*
> Delivering financial planning service that meets the CFP Board's standards for practice requires open communication regarding client values, attitudes, expectations and time horizons, as well as complete and accurate quantifiable client information. Planning work with friends and relatives appears to pose resistance to this accomplishment. (Certified Financial Planner Board of Standards, 2001).

One planner stated that she had difficulty asking for this information. The revelation was particularly impressive as it opened up the possibility that not only was the client hesitant to provide thorough financial disclosure, due probably to the personal relationship with the planner, but the planner may have felt a similar hesitation in reverse. In other words, the planner might have been hesitant to embarrass his or her friend by asking personal financial information. Also, the planner may just have grown weary of dealing with this hesitancy of disclosure by clients of personal relation.

A practical result of client hesitancy to provide financial information is the plan the planner produces. Both planners stated that such plans tended to be less than thorough, often omitting pertinent personal and financial data from data gathering and thus the analysis. Each participant seemed professionally challenged by this experience. The following three questions were of secondary interest:

Which Areas of Financial Planning Produce the Most Conflict?

The areas of personal debt, income, and insurance seemed to be the areas of conflict that produced the most conflict. An initial hypothesis as to why this was so might suppose that these topics are more personally sensitive to a client than the other areas of a financial plan. The leader of a planning practice would be challenged here to search for ways to insure client comfort in these areas, thus encouraging full disclosure of information and an openness to plan recommendations.

How do Planners React to Personal Conflicts of Interest?

In essence, both planner participants tried to reassure their clients, restating the importance of accurate, thorough information, and asked for the information again. One planner accepted approximate answers when specific answers were not offered, while the other planner tried to complete the plan without the information.

What Plan Errors Resulted from Personal Conflicts of Interest?

The interviews conducted reveal that errors from conflicts of interest most often were in the recommendation section of a plan. For example, a recommendation to accumulate additional funds for retirement was made in error, as the client had not divulged the existence of other assets from an inheritance. This really isn't surprising, as the recommendations are dependent upon the analysis, and the analysis is dependent upon accurate, thorough data, which a personally or family related client seemed hesitant to provide.

Possible Conclusions from the Study

Personal conflicts of interest appeared to present a significant hindrance to sound financial planning to the participants of this study. If these conclusions are confirmed and expanded by additional research, then financial planning organizations should consider expanding the treatment of conflicts of interest within their codes of ethics, to address personal conflicts specifically.

Further Research

This research was an effort to complement and thereby extend the literature about conflicts of interest within financial planning. The studies to date largely review conflicts of interest built into the current common methods of compensating planners with fees and commissions. (Conway & Starner, 1986; Slater, 1990; and Vessenes, 1997) This study adds consideration of personal and familial conflicts resulting from doing professional work with friends, acquaintances, and relatives. More research on a larger scale is needed to clarify and add to this study's findings.

Additional research is also needed to resolve if and how a financial planning firm can serve friends, acquaintances, and relatives of the firm's planners. Ethical codes of practice from two large financial planning organizations recommend full disclosure of conflicts. This beginning should be extended with research considering the inclusion of interactive techniques to resolve hesitancies and difficulties that clients and planners may experience. Remedies such as recusal from service, perhaps with a referral to another planner in the firm, should also be researched.

Appendix

Interview Schedule

Interview Questions

1. Assume that high quality financial planning work involves producing a plan accurate and thorough in client concerns and data, with pertinent financial recommendations.
"Have you felt conflict with doing high quality work when providing financial planning service to friends, acquaintances or relatives?" "If you have felt conflict, please describe it for me."
2. "If you have felt conflict, in your view has it seriously impaired your ability to do high quality work?" "If yes, please tell me how so?"
3. "Whether you have felt conflict or not, how do you view working with friends, acquaintances, and relatives as financial planning clients?
4. "If you have felt conflict, which areas of the financial planning process produce the most conflict?"
5. "How do you react to the conflict you feel when involved in one of these planning areas?"
6. "What errors, if any, might be produced in the financial plan due to personal or familial conflicts you may feel?"

Protocol

1. Questions 1-6 were essential questions. If no conflict was felt, only questions 1 and 2 were asked.
2. Probing questions such as: "Please tell me more about your feelings in this situation." were asked whenever appropriate to gather more information from the subject.
3. The entire interview was recorded and notes taken. The recording was transcribed after the interview and the transcription and notes formed the basis for analysis.

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