

## **Research: Communication Issues in Life Planning**

### Defining Key Factors in Developing Successful Planner-Client Relationships

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## **I. Introduction**

Within the financial planning community, there is growing interest in a holistic, client-centered, values-based approach to developing successful client relationships. Although anecdotal evidence supports the efficacy of this approach, there is a lack of scientific research to verify its benefits. Furthermore, in order to identify best practices, the financial planning profession recognizes the importance of learning more about how various aspects of communication can contribute to the development of trust and

commitment in planner-client relationships. The research we present in this report is an effort to meet these needs. In 2006, members of the Life Planning Consortium<sup>1</sup> developed and conducted the “Survey of Specific Elements of Communication that Affect Trust and Commitment in the Financial Planning Process.” The Financial Planning Association (FPA) co-sponsored this research and has been an invaluable partner by endorsing the project, conducting the survey, and disseminating the results. In a letter of support for this research, Sean Walters, then managing director of knowledge and market development for FPA, wrote: “The primary aim of FPA is to be the community that fosters the value of financial planning and advances the financial planning profession. FPA is committed to exploring new ways for FPA members to provide more client-centered planning. And, FPA is interested in the development and identification of skills and competencies that are inherent in these planners.”

Certified Financial Planner Board of Standards, Inc., provided funding for our research. In the award letter, a representative of CFP Board wrote, “Practicing financial planners, as well as the academic community, should benefit from the results of this research. It addresses certain qualitative skills needed by financial advisers.”

#### **A. Goal of Research**

Our goal in designing this study was to identify and statistically validate specific communication topics, tasks, and skills that contribute to building client trust and commitment in the context of a professional financial planning relationship. In particular, we explored elements of communication that are associated with a life planning approach to service delivery. We also examined the influence of selected communication variables on important indicators of successful planner-client relationships, including client retention, satisfaction, cooperation, openness, and referrals.

#### **B. Definitions of Terms**

To help establish clarity and focus in our research, we adopted the following working definitions of client trust, client commitment, and life planning:

**Client trust:** The belief of the financial planning client that the financial planner can be relied on to behave in such a manner that the long-term interest of the financial planning client will be served.<sup>2</sup>

**Client commitment:** The intent and assurance of a financial planning client (implicitly and explicitly expressed) to have an ongoing relationship with his or her current financial planner.<sup>3</sup>

**Life planning:** A process conducted by a financial planner to help financial planning clients to (1) focus on the true values and motivations in their lives, (2) determine the goals and objectives they have as they see their lives develop, and (3) use these values, motivations, goals, and objectives to guide the planning process and provide a framework for making choices and decisions in life that have financial and

non-financial implications or consequences.<sup>4</sup>

## II. Developing Successful Planner-Client Relationships

Results of a recent CFP Board consumer survey indicated that the top three criteria for choosing a financial adviser

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were that the adviser be “trustworthy,” “someone who listens,” and “more interested in meeting needs than selling products.”<sup>5</sup> Obviously, clients want more than technical competence when working with a financial planner. But how does a financial planner earn a client’s trust? What is involved in *real* listening, and how does a client define “meeting needs”?

In an attempt to answer these questions and to also form a solid foundation for our study, we reviewed previous research that explored the role of communication in developing successful financial planner-client relationships.

#### A. Client Trust and Client Commitment

Research conducted by Christensen and DeVaney<sup>6</sup> established that communication had a positive, strong, and significant relationship with client trust in a planner. Results of their research also indicated that higher levels of trust, in turn, had a positive and significant relationship with higher levels of commitment to the planner-client relationship. They concluded that planners who were more successful in developing client relationships were also more likely to experience higher levels of commitment than planners who did not attend to the interpersonal aspects of their businesses.

Similarly, Kirchmayer and Patterson<sup>7</sup> examined interpersonal communication as an antecedent of trust and closeness. They subdivided interpersonal communication into communication clarity, social communication, and provision of information. In the context of their research, trust consisted of credibility trust—trust in the financial adviser’s technical competence, and benevolence trust—confidence that the financial adviser will act in the client’s best interest. Analyzing survey data from financial planning clients, they found that communication clarity—

described as listening, enthusiasm, and open and honest discussion—had the largest impact on a client’s perception of a financial adviser’s technical competence—credibility trust—and level of closeness to the financial adviser.

State Street Global Advisors and the Wharton School of Business interviewed industry experts and surveyed financial advisers and clients to explore how trust is cultivated and preserved.<sup>8</sup> In the resulting report, *Bridging the Trust Divide: The Financial Adviser-Client Relationship*, the authors identified three levels of trust:

#### 1. Trust in Technical Competence and Know

**How**—This is the belief of the client that his or her financial adviser is experienced, knowledgeable, and able to help him or her to make difficult financial and personal decisions.

**2. Trust in Ethical Conduct and Character**—This level of trust is primarily a function of personal and/or industry ethics and is highly influenced by the reputation of the adviser and the company with which he or she is associated.

**3. Trust in Empathic Skills and Maturity**—This level of trust focuses on the “relationship competence” of the financial adviser and his or her ability to handle the client’s personal issues and sensitive information with empathy and tact.

Results of the State Street/Wharton study indicated that advisers who build and maintain trust on all three levels—competence, ethics, and empathic skills—will be in a better position to build longer lasting and more satisfying relationships with their clients. In addition, the authors concluded that advisers should make every effort to move toward a consultative approach that blends the financial aspects of the relationship with the personal:

In this way, with the right communication skills and tools, the adviser adds real value by focusing not only on a client’s financial well-being, but also on the underlying personal and familial issues that could further promote or cripple the client’s financial health.

In a 2000 study titled “Switching Costs, Alternative Attractiveness, and Experience as Moderators of Relationship Commitment in Professional, Consumer Services,” Sharma and Patterson<sup>9</sup> investigated the strength of association between trust, service satisfaction, and relationship commitment. They found a stronger association between satisfaction and relationship commitment than between trust and relationship commitment. In addition, switching costs, attractiveness of an alternative, and expectations based on prior experience moderated

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Research: Communication Issues in Life Planning the relationships between relationship commitment and antecedents of trust and service satisfaction. Sharma and Patterson concluded that financial advisers should be especially careful to nurture client relationships when the costs (real or emotional) of switching to another adviser are low, when other alternatives are attractive, and when working with a client who is very experienced in using financial services.

## **B. Communication and Perception of Service Quality**

An earlier study conducted by Sharma and Patterson, “The Impact of Communication Effectiveness and Service Quality on Relation Commitment in Consumer, Professional Services,”<sup>10</sup> was particularly helpful in developing the conceptual design of our research project. They found that communication effectiveness was the single most powerful determinant of a client’s *perception* of service quality, which influenced the client’s level of trust

in and commitment to his or her financial planner. Furthermore, Sharma and Patterson explained that perception of service quality is composed of two fundamental components: *technical quality* and *functional quality*. They explained that technical quality, is the “core or promised service in financial planning” and refers, in particular, to the “competency of the adviser in achieving the best return on investment for their client at acceptable levels of risk, thus assisting the clients to achieve their financial goals.” Functional quality, in contrast, is related to how the core service is delivered. According to Sharma and Patterson, “It is concerned with the courtesy and friendliness shown to the client, making efforts toward understanding his or her circumstances, displaying empathy, giving prompt service, and responding to queries and complaints in a responsible, courteous, and timely manner.”

### **C. Growing Importance of Communication in the “Functional Quality” Dimensions**

Without argument, it is the financial planner’s quantitative skills and knowledge that form the foundation of a successful financial planning practice. Quantitative skills and knowledge also establish the basis for developing client trust and commitment in the financial planning relationship. The biggest challenge, explained Sharma and Patterson, is that most clients do not possess the level of technical knowledge and expertise required to intelligently and objectively evaluate the quality of financial advice delivered.

Furthermore, financial planning is a process where the core service (technical performance) unfolds over time. Therefore, the true success of a financial plan can only be realized over the long term and in the context of an enduring planner-client relationship. In contrast, when a client’s focus is on short-term performance, a competitor’s promise of higher returns may weaken his or her commitment to the current planner relationship and undermine the success of his or her financial plan.

Therefore, Sharma and Patterson warned that as the core service becomes commoditized, competition increases, and the industry matures, “it is the functional quality dimensions that become increasingly important as a means of creating a sustainable competitive advantage.”

They expressed concern that, in the financial services industry, the central role of effective interpersonal communications in developing successful and long-term planner-client relationships has been largely ignored