"The Changing Face of Australian Financial Planning – the role of relationships: a case study."

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Abstract

The paper uses an Australian case study to investigate the changing face of the financial planning arena. It provides an introduction to the establishment of the financial planning industry in Australia. In particular it focuses on the way financial planners have been required to develop relationships with clients as part of the emergence of a financial planning profession. It additionally examines the evolving process by which financial planners have been required to develop further relationships with other professional bodies such as lawyers and accountants in an ever increasingly complex industry. The case study illustrates the emergence of a specialised relationship between the financial planner and experts in a particular area such as taxation law. It highlights how this type of relationship continues to drive the financial planning profession to ensure that the best advice is given to clients.

Introduction

In the past few years the financial planning industry has undergone many changes. Some of the main reasons for these changes include the following:

1. Increasing complexity of Australian laws surrounding investment and wealth creation opportunities. In particular the taxation system has increased in length and complexity over the past few years with the result that there is a growing need to turn to advisers. Furthermore the increase in

the regulatory system relating to financial advice has provided a need for greater knowledge and expertise in various areas of the law.

2. There is an increasing number of ordinary "Mums and Dads" entering into the Australian sharemarket which has resulted in an increased need for advice as to the appropriate mix for a share portfolio.

3. An ageing Australia population as a result of a declining fertility rate and an increasing life expectancy. This has resulted in a need to plan more carefully for retirement and general estate planning.

A natural result of these changes has been the increased need for professional advice. In particular the financial planning profession has been swamped with work opportunities. The financial planning profession is generally made up of those persons with expertise and experience in areas of taxation, life insurance, investment strategies, retirement, estate and succession planning. In addition the legal and accounting professions are also involved with many aspects of these areas. In fact there are specialisations within these professions that are particularly relevant to an area of financial planning. For instance a legal firm may work solely in the area of Taxation Law and provide expert advice only in this area of the law.

A major result of these changes has been a more competitive industry where there is constant lobbying for customers. Within the financial planning profession many members are increasing their educational qualifications (such as the Masters of Commerce (Financial Planning) degree at the University of Western Sydney) in an attempt to improve their educational profile. In addition there has been ever increasing competition between specialist legal and accounting firms for a share of this market. In particular a “specialist within a specialist” approach has recently evolved. It is this type of firm that forms the genesis of the following case study.

Bruce Smith[1] Lawyers is a legal firm based in Perth Australia. Their clients come to the firm Australia wide from other lawyers, accountants and advisers. They do not take clients from the street. As is noted on their web page:

“We only work in those areas of tax and superannuation that lawyers, accountants and advisers want us to work in. Estate Planning, Self Managed Superannuation, Tax Advice, Business Structures and Business Succession Planning are the bread and butter of the law firm”

This statement is quite illuminating. The legal firm functions as an adviser to those other professionals working in the area of financial planning. The relevant areas listed are, as noted above, key areas of the financial planning profession. In the situation where the financial planner, lawyer or accountant requires specific and expert attention to a particular aspect of financial advice to the end client then Bruce Smith Lawyers provides that service. In essence the clients of Bruce Smith lawyers are those other professionals who themselves are providing the end advice to their client.

The fact that Bruce Smith Lawyers do not accept clients from any other source than those other professionals provides a basis quite unique in business relationships. It has in fact redefined the business to business relationship in this particular field. Instead of providing advice directly to the client, based on the professionals’ expertise, there has been a shift to a relationship whereby professional groups are themselves the client for the other professional group.

[1] Name changed to protect confidentiality of firm.

If other professional firms aim to set up such relationships then there will develop a subset of competitive bargaining whereby there is an increasing lobbying for customers. As the financial planning profession is expanding rapidly, with an increase of 175% over the past 5 years of advisers studying to become financial planners (Beal & McKeown 2001), then the opportunities for such a market continue to improve.

The role of relationships

The importance and role of relationships has been discussed in detail in business markets and some work has been done on their role in financial markets. This papers looks at some of the theory behind relationships in business and financial markets and by applying that theory to the case study in question shows how relationships are changing the face of financial planning in Australia.

There is a substantial history of interest in business relationships and their role in business (industrial) markets (Bonoma, Zaltman & Johnston, 1977; Achrol, Reve & Stern, 1983; Dwyer Schurr & Oh, 1987; Anderson & Weitz, 1989; Anderson & Narus, 1990; Ford, 1997; Anderson, Hakansson & Johanson 1994;).

One outcome of the research into business relationships has been the interaction approach. This approach is relationship based and considers the interaction between the parties (buyers-sellers) as being central to the exchange process. Research has also shown that the relationships formed from these interactions are often lasting and committed (Dabholkar, Johnston & Cathey, 1994; Hakansson & Snehota, 1995; Ford, 1997).

Long-term business relationships are based on a mutual orientation and commitment over time (Hakansson & Snehota, 1995). This mutual commitment which often manifests itself in continual investment and adaptation by the two parties, leads to interdependence, which in turn becomes a central part of the relationship. In a sense it could be said that interdependence is synonymous with relationships.

Relationships in business markets are therefore seen to be a result of interactions in the exchange transactions. These exchange transactions include not just product/service exchange but also the exchange of information, financial, technical and social ends.

The interaction approach developed by the original IMP research group, (Ford, 1997), explicitly integrates relationship atmosphere into a model. The “Interaction Model” (IMP 1982) comprises of four main components: the actors in interaction, exchange episodes, relationship atmosphere and the broader environment of the relationship resulting from the exchange as shown in Figure 1.

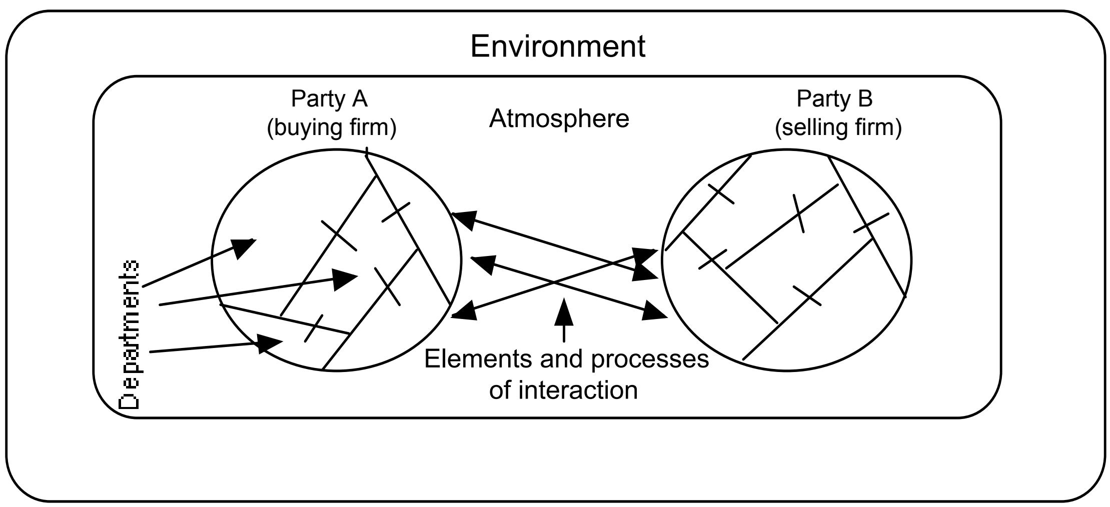

FIGURE 1: Main elements of The Interaction Model (IMP 1982)

The model revolves around the fact that the buyers and sellers are active participants in the market. That is, they search for alternative buyers and sellers who can provide them with exactly what they want in terms of product specifications and offerings. They are also innately conscious of the need for control of the transaction process. They want to deal with parties who can meet their requirements not only in terms of product but also in terms of product and process adaptations, information and other considerations, which impart value to the participants in the exchange.

Researchers who formed the original IMP group advocated the idea that relationships are long-term in nature (Ford, 1997). This long-term view leads to closeness between the parties. These relationships also tend to involve a complex pattern of interaction between the parties resulting in the fact that the focus of the parties becomes, as much an issue of relationship management rather than purely transaction management. In other words the emergence of a relationship means that the parties are no longer concerned with just closing the sale, but that they are thinking ahead to the implications it will have on other aspects of their business.

Levitt (1983) advanced explicitly in the marketing literature, the idea that a relationship does not end with closing the sale:

The relationship between a buyer and a seller seldom ends when a sale is made. Increasingly the relationship intensifies after the sale and helps determine the buyer's choice the next time around. Such dynamics are found particularly with services and products dealt in a stream of transactions between buyers and sellers…(Levitt in Dwyer et. al, 1999, p.40).

In other words he is advancing the notion that there is more than just a sale and that by its' nature the relationship between the buyer and seller implies a long-term orientation. This broadened orientation of buyer-seller relationships has been emphasised by other researchers (Anderson et al, 1987: Spekman 1988; Dabholkar, Johnston & Cathey, 1994).

Another interesting discussion of relationship evolution and the benefits of long-term relationships was put forward by De Monthoux (1975, cited in Szmigin 1993). Szmigin introduced De Monthoux's marriage analogy in an effort to describe relationship evolution and asserted that:

His work not only revealed the potential benefits of a long relationship, especially in terms of the barriers it can provide against competition, but also some other aspects of the psychology of working within a relationship. For example De Monthoux's research revealed that buyers, as well as suppliers, perceive the relationship as an investment in time and money and thus are unlikely to switch suppliers because of some short-term competitive advantage (Szmigin, 1993, p.7).

In essence the links between the buyers and sellers tend to become routinised, such that each party then has certain expectations about various aspects of the exchange process. This is where the concept of adaptation comes into play, in that the parties set their expectations in terms of product specifications, design, delivery, and credit terms. Since these adaptations can require significant commitment to changes in process and in some cases considerable investment in change, it can lead to both conflict and cooperation. The adaptations can in many cases bring the parties closer together, thereby facilitating future interaction and additionally putting in place barriers to entry to other companies who are trying to form relationships with the parties concerned (Hallen et al, 1991).

Mattsson (1995) notes that exchange is central to the concept of marketing and that an exchange relationship implies that there is a "specific individual dependency" between the buyer and the seller. He states that the exchange relationship is characterised by mutual dependency and interaction over time between the two parties. Hakansson and Snehota (1995) have tentatively tried to define a relationship as *mutually orientated interaction between two reciprocally committed partie*s. They have utilised the notion of relationship to analyse interaction in business markets because it evokes the concepts of mutual orientation and commitment over time. They elaborate on this by stating:

> *Mutual orientation and commitment are common in interactions between companies, if we judge from the empirical studies discussed earlier. Another reason is the high degree of interdependency between business organisations, as their existence depends on exchange with other economic subjects. A relationship often arises between two parties because of the interdependence of outcomes, even if it can arise for other reasons. As it entails mutual commitment over time a relationship creates interdependence which is both positive and negative for the parties involved. A relationship develops over time as a chain of interaction episodes – a sequence of acts and counteracts. It has a history and a future. In this way a relationship creates interdependence as much as it handles interdependence* (Hakansson & Snehota, 1995, p.25).

The interaction, evidenced by researchers in industrial markets, is mirrored by that of financial markets, although not as much in-depth work to date has taken place in this field. To look at relationships in this industry we need to look at the theory on services industries. Much has been written about the role of relationships in the services industry (Bitner, 1995; Gronroos 1994, 2000; Gummesson, 1994; Mattson 1997) and this provides implications for the case study in question.

Implications for the financial planning industry

The nature of the relationship is unique in that in many cases it is the information flow between the parties, which is crucial. As can be seen from the case of Bruce

Smith Lawyers, the relationship is based on the reduction of uncertainty between the parties. This reduction comes about due to improved information flow between professionals within the industry. Therefore the end client appears to have more confidence in the firm as the referral was made by a party with extensive knowledge of the industry, thereby instilling a greater degree of trust. Clients also benefit greatly from the long-term nature of the relationship. The long term relationship means clients are accustomed to the service provider and reluctance to change. This reluctance provides stability not only for the client but for the service provider, allowing them to customise the service to individual customer needs.

Conclusion

This work-in-progress paper has given some insight into the changing face of the Australian financial planning industry. It has highlighted the growing importance of relationships in the industry and used a case study to show how referrals in the industry are very much relationship based. Future research will look in more depth at the relationships that exist and how they have been formed.

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