A Study of Recognizing Conflicts of Interest in Pending Financial Planning Engagements

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Conflicts of interest (COI) are an ethical issue for financial planners because they impair professional judgment if not addressed. This article describes a quantitative, cross-sectional study of COI recognition in pending engagements and measuring the influence of time in practice and financial planning credentials upon recognition. Participants were 51 graduates of the M.S. degree from the College for Financial Planning. Participants were asked three questions regarding each of the six hypothetical situations of pending financial planning engagements. Each question provided an indicator of COI recognition. Time in practice and financial planning credentials were used as influence factors upon COI recognition. Results indicated high COI recognition involving role conflict and low recognition with family members as clients. Time in practice was related to increased COI recognition involving role conflict. Financial planning credentials were related to increased COI recognition with a business associate as client.

Keywords: conflict of interest, ethics, fiduciary, pending engagement, recognizing conflicts of interest.

Introduction

Conflicts of interest (COI) are an ethical issue for financial planners and all professionals who provide professional judgment to clients. A COI can be recognized before, during, and after engaging with a client. The later the discovery of a COI, the larger the potential negative consequences to the client and professional (Kassirer, 2001; Lo, 2012; Sinha & Hunt, 2013). A COI recognized prior to engagement can be avoided or removed with no adverse consequences to a client. A COI unrecognized until a financial plan is implemented may result in errors of judgment and decisions made from misjudgments. Consequences can grow from potential to practical and financial ones. The purpose of this study is to examine financial planner recognition of a COI and the influence of time in practice and professional designations upon COI recognition. This study is significant because the study focuses on recognizing a COI *before* an engagement is accepted, which provides the best opportunity to minimize financial and other damage to the client and financial planner. No current study examines recognizing COI in financial planning practice before engagement. Findings from this study regarding recognition of COI and the influence of time in practice and financial planning credentials upon recognition are unique contributions to the literature. The remaining sections of this article include background information about COI, a review of relevant literature, the conceptual model for the study, method utilized, results, discussion, limitations and future research, and implications for financial planners.

Background

A conflict of interest is a type of conflict a professional encounters that will damage professional judgment if not dealt with appropriately. A COI is best understood by comparing its influence with that of a common nuisance conflict (also known as a conflicting interest, see Davis, 2001). A nuisance conflict is initiated by another interest a professional has that distracts the professional from focus on the client's best interest, but the influence of the conflict can be resisted so that the distraction subsides. The influence of a nuisance conflict can be resisted over an extended period, so that professional judgment is not affected. Examples of a nuisance conflict include thoughts about an upcoming vacation, a new professional article in progress, and upcoming maintenance required for a vehicle. A COI provides a much stronger influence than a nuisance conflict. The influence of a COI cannot be resisted indefinitely and will impair professional judgment. Examples of a COI include a significant business relationship or a role with fiduciary responsibility, like serving on the board of a charitable organization. Consequently, a COI should be avoided or temporarily managed until it can be removed (Brody, 2010; Davis, 2001; Sah, 2012). When a professional's judgment in service to a client is impaired, this negates the professional's fiduciary responsibility to the client.

To understand the scale that COI can encompass, consider a recent development: A key element in the recent recession in the United States was the COI held by the credit rating agencies that rated the collateralized debt obligations (CDOs) provided by investment banks. The investment banks sought

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and paid for the ratings to be calculated. Collateralized debt obligations were much easier to sell to retail markets with investment grade ratings. This level of ratings was readily secured; in fact, 60% were rated AAA according to Fitch Ratings (2007). The strong upward sales momentum of CDOs with investment grade ratings significantly bolstered the fee revenue of the rating agencies providing the ratings. Upon later investigation of the work product of the rating agencies, these investments were found to be below investment grade (Strier, 2008). On February 5, 2013, the U.S. Department of Justice filed suit against Standard & Poors Financial Services LLC (S&P) for fraud in misleading investors by inflating its credit ratings of CDOs (Sorkin & Walsh, 2013).
The suit was settled February 3, 2015 for $1.375 billion and included acknowledgment of conduct in rating CDOs and residential mortgage-backed securities (Dept. of Justice, 2015).

Evidence of the recognition of COI among professional associations can be seen by noting that virtually all recognized professions have strong directives about COI in their codes of ethics and practice. The requirement to prioritize the client's interest in the fiduciary standard of care prohibits the subversion of client interest to a COI (Fiduciary360, 2006), thus maintaining the level of trust in a financial planning engagement (Christiansen & DeVaney, 1994). Financial planners, like other professionals, base their professional reputation on their professional judgment, providing the fiduciary standard of care to clients (CFP Board, 2014). Accordingly, research conducted as early as 1997 by Bae and Sandager (1997) indicated 92% of potential financial planning clients surveyed prefer a financial planner with the CFP® designation.

Relevant Literature

COI within professional practice is a topic of active discussion and research across professional groups in the peer-reviewed literature. Areas examined include the consequences of unaddressed COI (Boyd, 2004), the role of disclosure (Weinfurt et al., 2006), and the need for a uniform policy concerning COI (Lexchin et al., 2008; Lipsky, 2008; Newcombe, & Kerridge, 2007).

No empirical research regarding recognition of COI prior to engagement was found in a peer-reviewed journal. This finding came from numerous key word searches with EBSCOhost, ProQuest, and other databases. However, useful conceptual (as opposed to empirical) articles are available in the peer-reviewed literature regarding the recognition of COI in settings prior to engagement. Ashear, Shears, and Miller (2012) provided suggestions for recognizing COI in research in emergency department medicine. Their research indicated that medical researchers were encouraged to reflect on the ethical principles of respect for persons and the COI that may be involved in the research before engaging in the project. This suggestion underscores the ability of a physician to recognize COI prior to engagement and highlights the need for this research, which examines how well a professional recognizes a COI prior to engagement.

Avdibegovic and Sutovic (2012) provided a proposal of recommendations for recognizing COI between psychiatrists and pharmaceutical companies. They recommend that psychiatrists evaluate all relationships, financial and other relationships, with pharmaceutical companies to consider possible COI, to accommodate ethical duties and to act in the best interest of the patient. This recommendation underscores the ability of a psychiatrist to recognize COI prior to engagement and leads to a primary intent of this study: to examine how well a professional can recognize a COI prior to engagement in order to avoid the COI.

Commentaries discussing the avoidance of COI describe obvious conflicts. Professionals can recognize a COI on sight. For example, Siegel and McGrath (2003) note that biased decisions in an audit by an accountant reflect a likely COI. This standard strongly infers the ability of a CPA to recognize COI prior to engagement. The article raises the question of how well a professional can recognize a COI before engagement, which is the focus of this study. In an article discussing healthcare management ethics, Nelson (2009) proposes a similar standard for recognition, considering a COI when self-interest may interfere with professional judgment. This article supports the ability of a healthcare professional to recognize a COI prior to engagement, which informs the purpose of this study, how well a professional can recognize a COI prior to engagement.

Research has explored professionals' ability to recognize ethical and unethical practice situations. For example, Ward, Ward, and Deck (1993) performed a survey of CPAs in public practice to research their ability to recognize and evaluate ethical and unethical situations portrayed in six vignettes. Ethical behaviors were defined by the *AICPA Code of Professional Conduct*. Results indicated participants were generally able to determine ethical and unethical behavior in the vignettes. The current research study builds upon this finding, exploring how financial planners recognize a specific type of unethical issue, a COI, in hypothetical situations.

Existing research confirms types of interests that frequently become a COI when introduced into a fiduciary relationship. Categories include financial interests (Levinsky, 2002), familial interests (Chen, Freudtner, Rhodes, & Green, 2001), personal interests (Provis, 2007), interests involving professional or academic standing (Anderson & Kraus, 2011), charitable interests (Stuckler, 2011), and other interests of sufficient influence to the individual involved. Each category of interest sufficiently influences or impairs professionals' judgment. Such research supports the current study by providing insight into types of interests that can be recognized as causing a COI.

In summary, previous research shows: 1) Studies in medicine and research have provided directives for examining professional relationships for possible COI prior to engagements; 2) Research with CPAs has confirmed the ability of professionals to distinguish ethical from unethical behavior; and 3) Types of interests likely to involve a COI can be categorized from relationships of sufficient influence to relationships to impair professional judgment (Anderson & Kraus, 2011; Chen et al., 2001; Levinsky, 2002; Provis, 2007; Stuckler, 2011). Based on previous research, this study is to examine how well a professional, in this case, a financial planner, can recognize COI in hypothetical situations. The study then examines the potential influence of time in practice and financial planning credentials upon recognition.

Conceptual Consideration

Four assumptions are used in this study: 1) A COI has sufficient influence to impair professional judgment; 2) A professional should avoid a COI or manage it until it can be removed; 3) A professional can recognize a COI by the type of interest; and 4) Professional credentials and time in practice will increase recognition of COI.

Accordingly, the model used involves the financial planner considering an engagement that includes a COI. Upon consideration, the financial planner will recognize the COI. If the engagement involves no COI, the financial planner will recognize this fact as well. Time in practice and financial planning credentials influence the financial planner's recognition of COI or no COI. As time and credentials increase, recognition will increase.

Based on this thought, the study addresses financial planner recognition of a COI in six hypothetical situations and the influence of time in practice and credentials upon that recognition. These are the hypotheses regarding the influence of time in practice and financial planning credentials upon recognition of COI, recognition of threat to judgment, and recognition of appropriate course of action:

H1: Time in practice has a positive influence on COI recognition.

H2: Financial planning credentials have a positive influence on COI recognition.

Method

Participants

The population of the study was 680 graduates of the College for Financial Planning Master of Science degree program from January 3, 2000 until January 13, 2012. All graduates were invited to participate in the study. A survey questionnaire was made available to all potential participants on a website for review and completion. The first page of the survey included confidentiality and consent information. The sample size was 51 respondents or a 7.5% return rate of complete surveys. The low response rate may have been due to the sensitive nature of the topic, no incentives, and the length of the questionnaire (seven pages). Two follow-up reminders were sent to each potential participant. Participants were notified of the study through their email addresses with the College for Financial Planning.

Data

Data regarding COI recognition were recorded from responses to three questions asked after each of six hypothetical situations of a financial planner considering an engagement. A short description of each situation is as follows: Situation A involved a client referral, Situation B involved a role conflict, Situation C involved a family member as a client, Situation D involved an acquaintance as a client, Situation E involved compensation disclosure, and Situation F involved a business associate as a client. Four of the situations included likely COI (B, C, E, and F); two did not (A and D). The descriptions of these situations can be found in Appendix.

The three questions asked after each situation were: 1) What is the likelihood the financial planner in the situation will encounter a conflict of interest by accepting this engagement? 2) Does the engagement in the situation pose a threat to the professional judgment of the financial planner? 3) If you think a conflict of interest will result from the engagement in the situation, what course of action would you take?

The responses to each question were different, responding to the question with five choices, reflecting a rank order from no recognition of a COI, with a score of 1, to recognition of a COI, with a score of 5. Scores of 2, 3, and 4 indicated a progressively increasing recognition of a COI, ending with 5 as the score of full recognition.

The respondents also asked to answer two questions regarding time in financial planning practice and financial planning designations held:

1.How long have you been in practice?
   a. Not applicable
   b. 1-5 years
   c. 6-10 years
   d. 11-15 years
   e. 16-20 years
   f. over 20 years

2. Which of the following financial planning designations do you hold?
   a. None of the designations listed below
   b. CFP
   c. CFP and one or more other financial planning designations
   d. ChFC
   e. ChFC and one or more other financial planning designations
   f. PFS
   g. PFS and one or more other financial planning designations

Responses were ranked ordinal scale responses, ranked 1 to 6 in question one. For question 2, response a. was rated 1, responses b., d., or f. were rated 2, and responses c., e., or g. were rated 3. Among these professional designations, CFP refers to Certified Financial Planner, ChFC refers to Chartered Financial Consultant, and PFS refers to Personal Financial Specialist.

The survey was pre-tested by five subject matter experts, each a highly experienced financial planner. The experts took the questionnaire as a participant and then answered the following questions: 1) Are the questions clearly stated? What improvements would you suggest? 2) Do the situations containing a likely COI clearly reflect the issue? What improvements would you suggest? Suggested adjustments were made to improve the clarity of the questions. The situations were also clarified, while attempting not to eliminate all traces of ambiguity often present in financial planning practice. Two additional situations were suggested and added to include a situation with another type of COI and a situation without a COI.

Content validity was addressed by the scrutiny of the expert panel with resulting adjustments. Reliability of the survey questions was measured with Cronbach's alpha, using optimal scaling, due to the ordinal level of the data (Mair & De Leeuw, 2010). The result was an alpha =.934, indicating very good internal consistency among the responses to the questions in the survey.

Variables

Data from responses to each of the three questions for each of the six situations provided a measure of recognition of COI. The individual questions indicated (1) recognition of a likely COI, (2) recognition of threat to professional judgment, and (3) recognition of appropriate course of action. Each indicator was used as a separate indicator of COI recognition, to provide three dimensions of recognition of COI. Each indicator was used to measure responses for each situation, so each of the three dimensions of COI recognition could be applied to the different situations. The net effect was three indicators as applied to each of the six situations, producing 18 separate regressions, each with a dependent variable of a specific indicator applied to a specific situation. For example, recognition of a COI (Question 1) applied to Situation A. Each dependent variable was identified by the indicator and situation addressed. For clarity and brevity, indicators were labeled as: recognition of COI, recognition of threat, and recognition of action, followed by the letter indicating the situation. Recognition of COI applied to Situation A was labeled as: recognition of COI-A (Table 3). Data from questions about time in practice and financial planning credentials were the independent variables, measured for influence upon each dependent variable.

Data Analysis

Calculations indicating the extent of recognition of COI were made for responses to each of the three questions asked for each of the six situations. Recognition was measured by the alignment of actual responses with expected responses. Expected responses varied based on whether or not the situation included a COI. For each situation that did include a COI (Situations B, C, E, and F), the expected responses were:

   Question 1: A very high likelihood of a COI.

Question 2: A threat to judgment.
Question 3: An action reflecting a very high likelihood of a COI.

For the situations that did not include a COI (Situations A and D), the expected responses were:

Question 1: No likelihood of a COI.
Question 2: No threat to judgment.
Question 3: An action reflecting no likelihood of a COI.

A summary calculation was made of the results for each question for each of the six situations, to determine the direction of the responses toward either a generally low or a high likelihood of 1) recognition of a COI, 2) recognition of threat to judgment, and 3) recognition of appropriate course of action.

Linear multiple regression analyses with optimal scaling was employed, due to the ordinal level of the data (Mair & De Leeuw, 2010), to calculate the influence of independent variables upon the dependent variable. Optimal scaling transformed the ordinal level data to linear data of interval level. Time in practice and financial planning credentials were analyzed as independent variables of potential influence upon the dependent variable, COI recognition. Both practicing time and financial planning credentials were included in each regression to reflect the weighted influence of each variable. The dependent variable was measured by the three indicators, recognition of COI, recognition of threat, and recognition of action. Influence was considered statistically significant at $p \leq .05$. All analyses were conducted using SPSS 21 for Windows.

To insure the two influence factors were not highly correlated (multicollinearity), the tolerance of each factor from the other was calculated. Tolerance is the proportion of the variability of one factor that is not explained by the other factor. Tolerance is considered a problem with a reading of less than .20 (Vogt, 2007). Both influence factors had a tolerance of 1.00 and were considered not to have multicollinearity.

Results

Descriptive Statistics

Table 1 presents descriptive statistics of COI questions. Question 1 is about the first indicator of COI recognition, recognition of likely COI. Actual summary responses were in alignment with expected responses for recognition of COI when asked for Situations A, B, D, E, and F. Responses were not in alignment with expectations for Situation C.

Question 2 was about the second indicator of COI recognition, recognition of threat to professional judgment. This question was asked because impairment of professional judgment is a key characteristic of a COI (Davis, 2001). The question determined if participants perceived this threat or associated the threat with a COI (if perceived). The summary of participant responses for Question 2 were in alignment with expected responses for 3 of the 6 situations, Situations A, D, and E. Responses were not in alignment with expectations for Situations B, C, and F.

Question 3 was about the third indicator of COI recognition, recognition of appropriate course of action, asked to determine a participant's choice of course of action. Participant responses for recognition of appropriate course of action were in alignment with expected responses for four of the six situations, Situations A, B, D, and F. Responses were not in alignment with expectations for Situations C and E.

Table 2 presents descriptive statistics of practicing time and professional designation. Participants were asked to place themselves in 1 of 6 brackets of time in practice, varying from not applicable to over 20 years. Nine participants indicated not applicable, four indicated 1-5 years, eleven indicated 6-10 years, ten indicated 11-15 years, six indicated 16-20 years, and eleven indicated over 20 years.

When participants were asked about the financial planning credentials they held, two participants selected none of the above, eleven selected CFP®, ChFC®, or PFS, and 38 selected CFP®, ChFC® or PFS plus 1 or more additional designations.

Regression Analyses Results

Results regarding the influence of the independent variables upon the dependent variable COI recognition, as measured by each of the three indicators and each Situation are in Table 3. Time in practice had a statistically significant influence on COI recognition, using indicator recognition of COI, when asked for Situation B (Beta = .381, p =.012). This response aligned with expectations because Situation B *did* contain a COI. Increased time in practice was expected to influence responses toward a likely COI. Thus, H1 was accepted for the indicator recognition of COI for Situation B. No statistically significant relationship was found for the influence of time in practice upon recognition measured by the same indicator for Situations A and C-F. This was not aligned with expectations. H1 was rejected for indicator recognition of COI, for Situations A and C-F.

Table 1. Summary Responses to Questions 1, 2, and 3

Responses to Question 1 - Likelihood of a COI			
Situation	Low Likelihood of CI [frequency]	High Likelihood of CI [frequency]	Results Aligned with Expected Response
A: Client Referral [no COI]	48	3	Yes
B: Role Conflict [COI]	0	51	Yes
C: Family as Client [COI]	38	13	No
D: Acquaintance as Client [no COI]	47	4	Yes
E: Compensation Disclosure [COI]	16	35	Yes
F: Business Associate as Client [COI]	21	30	Yes
Responses to Question 2 - Threat to Judgment			
Situation	Low Likelihood of Threat to Judgment [frequency]	High Likelihood of Threat to Judgment [frequency]	Results Aligned with Expected Response
A: Client Referral [no COI]	49	2	Yes
B: Role Conflict [COI]	50	1	No
C: Family as Client [COI]	39	12	No
D: Acquaintance as Client [no COI]	50	1	Yes
E: Compensation Disclosure [COI]	13	38	Yes
F: Business Associate as Client [COI]	27	24	No
Responses to Question 3 - Course of Action			
Situation	Low Likelihood of Threat to Judgment [frequency]	High Likelihood of Threat to Judgment [frequency]	Results Aligned with Expected Response
A: Client Referral [no COI]	49	2	Yes
B: Role Conflict [COI]	50	1	No
C: Family as Client [COI]	39	12	No
D: Acquaintance as Client [no COI]	50	1	Yes
E: Compensation Disclosure [COI]	13	38	Yes
F: Business Associate as Client [COI]	27	24	No

Table 2. Time in Practice and Financial Planning Credentials

Time in Practice	Frequency	Percent	Credentials	Frequency	Percent
None	9	17.6	None of the above	2	3.9
1-5 years	4	7.8	CFP®, ChFC®, or PFS	11	21.6
6-10 years	11	21.6	CPF®, ChFC®, or PFS + 1 or more	38	74.5
11-15 years	10	19.6	Total	51	100
16-20 years	6	11.8			
Over 20 years	11	21.6			
Total	51	100			

Financial planning credentials had a statistically significant relationship with COI recognition, indicator recognition of COI, for Situation A (Beta = .397, p =.023). This indicated participants with increased financial planning credentials influenced responses toward the increased perception of a COI. This response did not align with expectations because Situation A did not contain a COI. An increase in financial planning credentials was expected to provide influence toward

Table 3. Regression Results

	Time in Practice		Professional Credentials	
	β	p	β	p
Recognition of COI-A	-0.251	0.51	0.397	.023*
Recognition of COI-B	0.381	.012*	-0.357	0.074
Recognition of COI-C	-0.194	0.591	0.32	0.124
Recognition of COI-D	0.273	0.439	-0.398	0.109
Recognition of COI-E	0.046	0.868	0.501	0.389
Recognition of COI-F	-0.185	0.649	0.542	0.23
Recognition of Threat - A	0.273	0.498	0.316	0.252
Recognition of Threat - B	-0.397	.001**	0.452	.001**
Recognition of Threat - C	0.252	0.683	-0.26	0.343
Recognition of Threat - D	-0.462	0.141	0.369	0.218
Recognition of Threat - E	0.368	0.32	-0.146	0.778
Recognition of Threat - F	0.197	0.556	0.46	0.345
Recognition of Action - A	-0.306	0.475	0.352	.045*
Recognition of Action - B	-0.214	0.155	-0.052	0.363
Recognition of Action - C	-0.303	0.343	0.265	0.206
Recognition of Action - D	-0.252	0.517	-0.163	0.585
Recognition of Action - E	0.384	0.272	0.141	0.697
Recognition of Action - F	-0.143	0.521	0.753	.003*

* $p \leq .05$. ** $p \leq .001$.

a low likelihood of a COI. Therefore, H2 was accepted, using the indicator recognition of COI, for Situation A. Financial planning credentials did not have a statistically significant relationship for indicator recognition of a COI in Situations B-F, which was not aligned with expectations. Accordingly, H2 was rejected for the indicator recognition of COI in Situations B-F.

Time in practice had a statistically significant inverse relationship with the indicator recognition of threat when posed for Situation B (Beta = -.397, p = .001). This meant time in practice influenced responses toward indicating a low threat to professional judgment. This response did not align with expectations because Situation B contained a COI. Because COI is defined in terms of impaired professional judgment, increased time in practice was expected to provide a direct, as opposed to inverse, influence upon recognition of this threat. H1 was accepted for the indicator recognition of threat for Situation B and will be discussed. Time in practice did not have a statistically significant relationship with recognition of threat to judgment for Situations A and C-F. This was not aligned with expectations. H1 was rejected for the indicator recognition of threat for Situations A and C-F. Financial planning credentials reflected a statistically significant relationship with the indicator recognition of threat when asked in Situation B (Beta = .452, p= .001). This response indicated financial planning credentials provided influence upon responses indicating a likely COI. The response aligned with expectations, as Situation B contained a COI. H2 was accepted for the indicator recognition of threat to judgment for Situation B. Financial planning credentials did not have a statistically significant relationship with recognition of threat for Situations A and C-F, which was not aligned with expectations.

Time in practice did not have a statistically significant relationship with the indicator recognition of action for Situations A-F, which was not aligned with expectations. Accordingly, H1 for the indicator recognition of action, Situations A-F, was rejected.

Financial planning credentials reflected a statistically significant relationship with the indicator recognition of action for Situation A (Beta = .352, p =.045). This meant the financial planning credentials factor influenced responses toward a course of action reflecting a COI. This influence did not align with expectations, as Situation A did not contain a COI. H2 was accepted for recognition of action, Situation A and will be discussed. Financial planning credentials reflected a positive influence on course of action for Situation F (Beta =

.753, p = .003). This influence *was* aligned with expectations, as Situation F contained a likely COI. H2 for the indicator recognition of action was accepted for Situation F. Financial planning credentials did not have a statistically significant relationship with appropriate course of action for Situations B-E. H2 was rejected for the indicator recognition of action, Situations B-F. This was not aligned with expectations.

Discussion

Indicators of COI

In the summary responses for each indicator, several responses were in alignment with expectations. In responses to the indicator recognition of COI for Situation A, involving a referral of a new physician associate by the senior physician, participants almost uniformly (48/51, Table 1) recognized there was no COI present. However, some nuisance conflict may have been present in providing service to both physicians. Responses were in the same direction for this indicator for Situation E, involving a commission and fee disclosure issue (35/51, Table 1). Participants may have recognized the COI due to the planner's failure to disclose important information when seeking to use a commission product. Situation F involved the financial planner considering an engagement with a partner in a very successful venture, and participants recognized the COI here as well (30/51, Table 1). Perhaps financially related COI are more transparent than COI involving other types of interests.

Participants were consistent in summary responses to Question 2 for Situation E, recognizing a threat to judgment (38/51, Table 1), as they recognized the likelihood of a COI for this Situation. Again, the threat to judgment may have been more apparent to participants for this type of COI than other COI. With the indicator recognition of action, results indicate consistency with recognition of likely COI for Situation B, the role conflict (49/51) and Situation F, the business associate as client (34/51, Table 1).

In the analysis of the results for each indicator of recognition of COI, several participant summary responses were not in alignment with expectations. The single largest discrepancy occurred with responses to Question 1 regarding recognition of likely COI in Situation C (13/51, Table 1). Situation C involved an adult daughter and her husband seeking financial planning advice from the daughter's father. The daughter and her husband had two children, the first grandchildren of the daughter's father and mother. The COI was the strong familial relationship among the father, daughter, and son-in-law, which was likely to impair the father's professional judgment when providing financial planning service for these family members (Babu, 2011; Bearden, 2001; Chen et al., 2001; Hill, 2012).

Why was this COI difficult to recognize? Based on the narrative of Situation C, the financial planner's personal interests in these potential clients can be assumed to involve affection and mutual interdependence. These characteristics are somewhat aligned with the fiduciary relationship until considering objectivity. Relationships of affection and mutual interdependence may involve emotion from the financial planner's perspective possibly making objectivity in judgment difficult to maintain. This is similar to the issue a surgeon encounters if considering performing surgery on the surgeon's children (Fromme, Farber, Babbott, Pickett, & Beasley, 2008).

In addition, a familial relationship may initially appear more similar to a fiduciary relationship than would a financial interest. An impending COI with a business partner may be easier to recognize than a COI from a familial relationship.

An interesting lack of alignment was noted for responses to recognition of a threat for Situations B and F (1/51 and 24/51, Table 1). Participants indicated a low recognition of threat to judgment for both situations, but indicated a high recognition of COI in both situations. This may indicate that participants did not associate a threat to professional judgment with recognition of a COI.

A similar response was noted for Question 3, recognition of action. When the question was posed for Situation E, participants recognized a course of action indicating low likelihood of a COI (16/51, Table 1), but indicated a high recognition of a COI (35/51, Table 1) and a high recognition of threat to judgment (38/51). Situation E involved a financial planner who used either fee or commission compensation for product implementation. The financial planner provided incomplete disclosure to the client in the situation, reflecting the COI the planner had when using commission financial products. (This is not meant to imply that every financial planner who uses both means of compensation would experience a COI.) Perhaps the presence of an impending COI and an understanding of the threat to professional judgment were apparent, but the need to avoid the engagement was not.

Potential Effects of Practicing Time and Professional Designation

In reviewing results from measurements of the influence of independent variables upon the dependent variable, three of the regressions indicated at least one independent variable had a statistically significant relationship with a dependent variable (Table 3). Time in practice was related to the indicator recognition of COI for Situation B, the role conflict situation involving the financial planner considering service to a non-profit upon whose board she served. Time in practice increased recognition of this COI. Financial planning credentials had a statistically significant relationship with recognition of threat in the Situation B, increasing recognition of the threat to judgment. Finally, financial planning credentials were related to recognition of action for Situation F, involving the financial planner considering service to a partner in a business venture. Each of these relationships aligned with the expectation that both independent variables would be related to COI recognition.

The three instances that reflected a statistically significant relationship of one of the independent variables with an indicator of the dependent variable, but *did not* align with expectations merit additional discussion. The influence of financial planning credentials upon recognition of COI in Situation A may be explained because the nuisance conflict in Situation 1, involving a senior and junior physician as clients of the same financial planner, can be a strong conflict that could be mistaken as a COI. Incidents that could raise the conflict realized by the financial planner include significant professional or financial disagreement between the two physicians that could make exercising fiduciary responsibility to both difficult for the financial planner providing service. The researcher and the Subject Matter Experts concluded this conflict did not rise to a COI. In addition, 94.1% of the summary responses from participants to Question 1 for Situation A were in the direction of a generally low likelihood of a COI. Nonetheless, because this conflict could have been understood as a COI by particular participants, those with increased financial planning credentials may have drawn the same conclusion.

The inverse influence recorded for time in practice for responses to recognition of threat for Situation B reflects a lack of association among participants with increased time in practice and a threat to professional judgment. As noted earlier, the time in practice factor had a positive influence on the indicator recognition of COI (Question 1) for Situation B, but an inverse relationship for the indicator recognition of threat to judgment. This same occurrence was recorded for responses by participants to recognition of threat in Situations A-D and F, underscoring that participants in general did not associate a threat to judgment with a likely COI.

Financial planning credentials exerted positive influence upon recognition of action for Situation A, which was counter to expectations, as this situation did not contain a COI. Perhaps, as was suggested with responses to recognition of COI in Situation A, this potentially strong nuisance conflict had been seen as a COI, with increased credentials supporting that direction.

As noted above, 13 regressions reflected no statistically significant influence of either predictor upon any of the three indicators of COI recognition for Situations A - F. A possible explanation is the two predictor variables did not provide sufficient differences in view to record influence on the dependent variable. This could be due to all participants having graduate degrees from the College for Financial Planning. Participants may have had sufficient knowledge of COI that financial planning credentials and increased time in practice may not provide sufficient additional knowledge to reflect differing influences upon the 13 noted combinations of the three indicators asked for the each of the six situations.

Limitations and Future Research

Limitations of the Study

The study was confined to a sample of participants from a specific college. Accordingly, the sample may not be representative of practicing financial planners. While the sample was drawn randomly, the characteristics and possible bias of these participants may not be representative of those who chose not to respond. This was reflected in the unequal number of participants who selected each of the selections regarding financial planning designations. This could have been remedied with a stratified random sample of participants holding each possible selection for each independent variable. The response rate for the sample was 7.5%, which also limited the representation of the sample to the population from which it was drawn.

Additionally, the survey instrument was a new device, and while the author made an effort to verify the validity and reliability of the instrument and particularly the questions asked of participants, further refinement is needed to clarify and expand the survey for further research.

While the dependent variables were measured separately when posted to each situation, the interrelationship of each variable was not measured, as that was not a focus of the study. This could be done using multivariate multiple regression (Johnson & Wichern, 2007) in future research.

Areas for Future Research

Findings from the study confirmed that participants recognized the likelihood or lack of likelihood of a COI according to Question 1 in five of the six situations. The situation without recognition was Situation C, which involved providing financial planning service to an adult daughter and her family. Because this was the only situation in which an impending COI was not recognized, this area of practice should be examined further. A qualitative research study, in which financial planners could be questioned in an open-ended fashion about work with family members and any risks they may perceive to their ability to use professional judgment, would be appropriate. Participants did not associate a COI with a threat to professional judgment in two of the three situations in which a COI *was* recognized. These were Situations B and F. Situation B involved a financial planner on the board of a charity, who chose to maintain her board position while competing to provide financial planning service to the charity. Situation F involved a financial planner considering service to a business partner in a successful local restaurant. Research should explore why the threat to professional judgment *was not* recognized in these types of situations, while a COI was recognized.

As a possible research response to the 13 regressions reflecting no significant influence from the independent variables, additional research using a stratified sample of financial planners might be useful, in which graduate education related to financial planning is isolated as a separate influence factor along with financial planning credentials and time in practice. The dependent variables upon which the two predictors reflected influence are sources of additional research, to explore why participants responded as they did. Finally, exploring the influence of age and gender upon financial planners regarding recognition of COI would be interesting to discover if these possible predictors influence recognition of COI.

Implications for Financial Planners

The finding that participants did not recognize a COI in Situation C may tell us something about how financial planners may feel about working with family members' situation that should be more carefully considered. Financial planners should recognize that the risk to professional judgment when considering service to a family member comes from sufficient interest in the member to impair professional judgment, especially objectivity. For this reason, physicians are encouraged not to treat immediate family members except in emergencies (American Medical Association, 2014). Therefore, additional training should be provided for financial planners regarding non-financial COI, such as personal COI. Participants accurately recognized that a COI was likely in three of the four situations containing a COI (Situations B, E, and F, Table 1). However, participants only associated a threat to judgment in one of these three situations. Such a conclusion is significant for financial planning, as the threat to professional judgment is the key indicator of a COI (Davis, 2001). COI always provide a threat to the professional judgment of a financial planner. This information may be useful to all financial planners in practice. A strong implication for practice is participants and financial planners, in general, may not *associate* a COI with a threat to the financial planner's professional judgment. Practicing financial planners should recognize that all COI are a serious ethical issue because of the damage they can bring to professional judgment. This damage affects the client in the quality of financial planning work received, as well as the financial planner, who may be accused of lack of diligence. This issue could be addressed with training about the distinguishing factor of a COI from other conflicts, such as mandatory ethics course requirements for CFP® and ChFC® designees.

Effective remedies for a COI should be more clearly understood. As stated, participants recognized likely COI in three of the four situations containing COI. Appropriate courses of action in the direction of avoidance of the COI were selected in two of these three Situations, B and F (Table 1). The responses to Situation E reflect some ambivalence among participants. This may be because commission compensation and incomplete disclosure, while reflecting a COI and a threat to judgment, did not pose a sufficient threat to necessitate avoidance of the COI. An implication for financial planning practice is recognition that the best remedy for *any* impending COI is avoidance, if possible.

Sometimes avoidance is not possible or prudent, due to the needs of the client. In such situations, the professional relationship should be temporary until the client can be referred to another financial planner who does not have the COI (Bearden, 2010). This places the financial planner under the influence of the COI for a limited period and lessens the likelihood of a COI impacting judgment and work product. The influence of either time in practice or financial planning credentials was significantly related to one of each of the three questions in two of the four situations containing a COI. Increased experience and gaining professional credentials was a contributing factor for dealing with COI in an appropriate manner and should be encouraged.

Distinguishing between a strong nuisance conflict and a COI can be difficult, even with increased financial planning credentials. This is suggested by the significant influence that financial planning credentials had upon Questions 1 and 3 for Situation A, which contained no COI. This error could lead a financial planner to refuse a productive engagement, and can be addressed with further training to illustrate how a strong nuisance conflict and a COI are different. Distinction of a COI from a nuisance conflict could be illustrated during mandatory ethics course requirements for CFP® and ChFC® designees by providing realistic case examples similar to the six provided in this study.

In summary, increased professional experience and increased financial planning credentials are helpful for financial planners in recognizing and appropriately dealing with COI. Increased training about COI in continuing education and courses required for professional credentials will increase the benefits that experience and credentials currently provide.

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