CORE DATA

Fixing the Culture of Advice in Australia

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Address:
Suite 2, Level 11, 66 Hunter Street
Sydney, NSW, 2000
Ph: +61 2 9376 9600
Email: info@coredata.com.au

TABLE OF CONTENTS

Introduction	3
Methodology	4
A Snapshot of Organisational Culture	5
Readiness for Change	7
Drivers of Change	8
Industry Structure	10
Roadmap for Change	11
Conclusion	15
References	16

1. INTRODUCTION

The Australian financial planning industry is facing behavioural and cultural change of seismic proportions as planners, licensees and product manufacturers move to comply with the Government's Future of Financial Advice (FoFA) reforms.

While many financial planners have successfully adapted their business models in the wake of the global financial crisis and embraced fee-for-service, the industry at large continues to struggle with the transition to a culture of professional service, client focus and innovation.

There remains a strong-held perception – particularly among consumers that do not seek advice, who collectively make up around 80% of the Australian population – that financial planning is a sales culture whereby planners exist to flog product to line their own pockets.

The Government has adopted a 'stick' approach to change, however legislative reform alone will not change the culture of an entire industry.

An embedded culture can often serve as one of the biggest barriers to successful change, in particular the incompatibility of certain cultural traits – such as inflexibility and a strong process focus – with the need for change.

However, the FoFA reforms should be viewed as an opportunity for the Australian advice industry to fundamentally reshape its culture and change consumer perceptions.

CoreData's research suggests that the majority of planners believe wide-spread change is necessary for the financial planning industry – in particular servicing clients, upskilling of advisers, transparency around fees and charges and prospecting new clients. More than half also acknowledge that a change in fee structures is necessary.

The central position of this white paper is that cultural and behavioural change is a critical component of the changes being enforced under FoFA and a challenge that should not be underestimated by the industry.

Some of the key themes explored in this paper include:

- Organisational culture and behavioural change
- External and internal change drivers in financial services
- Barriers for change & behavioural norms to avoid
- Building a road map for change in financial planning

2. METHODOLOGY

This white paper was written following qualitative research conducted via telephone and face-to-face interviews with a number of industry experts.

In addition, an online survey of financial planners was carried out. The Readiness for Change survey resulted in 293 responses from financial planners, risk specialists, practice principals, paraplanners, dealer group managers and accountants.

Information was also sourced from various academic research papers.

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3. A SNAPSHOT OF ORGANISATIONAL CULTURE

According to almost all the Academic literature surrounding change – the key reason organisational change efforts fail, is the neglect of organisational culture.

In "Breaking the Code Of Change" in the Harvard Business Review Press (2000), Beer and Nohria, perhaps the greatest thinkers on change in this generation said: 'organisational change involves confronting the persistent pattern of behaviour that is blocking the organisation from higher performance, diagnosing its consequences, and identifying the underlying assumptions and values that have created it'.

They went on to say that changing values is perhaps the most significant, complex and difficult of all change programs to undertake – and statistically speaking – where the change required is cultural and not process driven almost all change programs fail the first time and less than half succeed the second time.

In financial planning, this means confronting the sales culture that has seen clients charged trail commissions, in many cases without any ongoing service element; diagnosing the consequences as a lack of trust among the general public in financial advice; and identifying that the assumptions and values that created this culture are a belief that consumers are not willing to pay a fee for advice.

Most change academics have proven that culture is an impediment to organisational change, but Quirke (1995), who specialises in communicating about change and is the author of "The Role of HR in Making Change Happen": 'the force of the culture is for the status quo; culture is the means by which we bring stability to the threat of change'.

In emphasising tradition and consensus, a kind of stagnation is encouraged. Strong cultures can reinforce beliefs that businesses are unchallengeable. The sales culture of financial planning has been built over many years and while many planners have long abandoned this approach, a vocal minority remain resistant to change and intent on ignoring the writing on the wall.

Culture can affect organisational change in many ways, such as the norms that promote creativity and innovation, and the norms that promote implementation. Other elements of culture that have an impact on organisational change include routines (the way things are done), rituals (what's important), control systems and power structures.

As a culture evolves, it works to coordinate and control behaviour of the majority, as well as influencing action and decision making within an organisation.

According to CoreData's Readiness for Change research, 70.1% of respondents say management within their business has generally been encouraging of change in the past, while almost two thirds (64.8%) say management has been positive about change.

Nearly two thirds (62.7%) say they received sufficient training to staff for change from management while 67.3% say that management has generally communicated change sufficiently.

These are positive signs for the industry, given that resistance to change and a failure to effectively communicate change are two common roadblocks when it comes to successful change management.

Having some experience with successful change is also important as it often plays a large role in shaping people's views on the likely success of future change.

In this regard, more than three quarters of respondents (77.5%) say that they have successfully managed change in the past, while nearly four in five (78.9%) say they are generally accepting of change as a normal part of doing business.

But these successful changes may have been smaller, incremental changes to the business and not large significant changes such as those the industry currently faces.

CULTURE OF ADVISERS:

- History of a sales culture, not a professional service culture
- History of an incentive culture
- Some not putting clients' interests first
- Attempting to move from cottage indus try to profession
- They need to focus on the soft skills just as much as the technical skills/ knowedge.
- Pressures to put funds through plat forms and products from product manufacturers

CULTURE OF PRODUCT MANUFACTURERS:

- Removed from the client (often don't understand or know who they are and what their needs are)
- Sales relationship with planners – push them to increase product sales and client numbers
- Disenfranchised – want to help two directly conflicting channels (they deal directly to clients and to advisers)

4. READINESS FOR CHANGE

When change is driven by external, rather than internal forces, it is typically harder to swallow.

Ideally the changes facing financial planners would have been driven by the industry, not the Government, but while some dealer groups moved early to shift the remuneration of their planners to a fee-for-service basis, many were slow on the uptake and are now suffering the consequences.

This polarisation among planners is evident in the research findings, which show that more than half of financial planners (53.0%) say the FoFA reforms will have a negative impact on them, two in five (42.0%) say the reforms will have a negative impact on their clients, and three in five (60.0%) anticipate an adverse impact on their business.

The attitudes held by those in the negative camp are not conducive to change and suggest these planners have low readiness for change.

Indeed, a majority of respondents (57.0%) say that FoFA will not assist in the growth of their business in the next 12 months, while a further 30.3% are on the fence.

But despite this prevailing sentiment, we may not see the mass exodus from planning that many industry pundits have predicted. The research reveals just 10.1% of respondents intend to leave the financial planning industry in the next two to five years – a far cry from the 40% fallout rate forecast by some.

There are approximately 18,000 financial planners in Australia and more than 8,000 practices. If 10.1% were to leave the industry in the short to medium term, that's 1,800 fewer planners to service the nation's need for good financial advice – not taking into account growth of new planners entering the industry, which would likely counteract the departures.

Those who do leave are expected to be predominantly from small to medium sized firms that are unable to manage the compliance and administration costs of transitioning to FoFA. These firms may be bought by the larger institutions over the next 6-12 months, continuing the trend towards consolidation and growth at the big end of town.

Many in the industry believe that the associated costs of FoFA will increase the cost of advice and that the burden of changing operating systems, training staff, and obtaining legal advice to comply with the reforms will mostly be felt by the smaller, independent advice businesses.

As with many large-scale change programs, the initial costs will be high but the medium and longer term costs will be far less onerous. However compliance cost and time is perceived to be the number one challenge facing advisory practitioners, according to the research, followed by responding to regulatory reforms – suggesting cost in the form of time spent implementing change will remain front and centre as planners implement the changes.

5. DRIVERS OF CHANGE

The drivers of change are multi-faceted; while it is primarily the Government driving FoFA, there are also economic and socio-cultural drivers for change that are fundamentally reshaping the nature of advice.

The economic drivers for change in the financial advice industry have come on the back of the global financial crisis, which resulted in heavy portfolio losses and subdued investor sentiment. This has caused a rethink among planners about the way in which they articulate the value of advice, and a shift from investments to risk.

But the socio-cultural drivers, which are beginning to change the advice industry, are being driven by the clients themselves.

The Australian consumer is now more sophisticated, financially literate and demanding better service at lower cost – hence the industry's heightened focus on low-cost advice delivery models.

A strong industry focus on financial education of consumers, the proliferation of information available online and knowledge sharing via social media have led to a more discerning customer, while the economic environment has seen an increased desire for flexibility and control.

Australians are now more proactive in controlling their own financial goals and outcomes and are looking to planners to provide them with certainty and a path to navigate through the various obstacles they face in saving for their retirement.

External and internal change drivers

The external and internal drivers of change are commonly studied in organisational change literature, and help explain some of the drivers for change in the Australian financial advice industry.

In the financial advice industry, the key external drivers for organisational change are the FoFA legislation, competition and changes in customer requirements, while the internal drivers are a change in the business focus (from sales to service), and technological advancements which are changing the way in which advice is delivered.

Table 1: External and Internal Drivers of Change

External drivers of organisational change		Internal drivers of organisational change	
• Legislation and Government policies • Globalisation of markets and the internationalisation of business • Competition • Advances in technology • Changes in customers' requirements and tastes	• Stockholders • Media • Changing social expectations • Level of international competition • Changes in competitors strategies • Fluctuations in business cycles • Organisational growth and expansion	• Human resources • Organisational culture • Appointment of senior management • Performance • Relocation of organisation • Change in an organisations technology	• Change in an organisations structure • Change in the business focus (primary task) • Change in administrative system

(Adapted from Dawson, 1994, 2003; Buchanan and Huczynski, 2004).

6. INDUSTRY STRUCTURE

Currently there is little synergy across the product manufacturers, planners and clients. For the industry to be successful and to increase the take-up of financial advice, all parts of the distribution chain need to be more proactive from a leadership perspective and adapt to become a culture of both professional service and innovation.

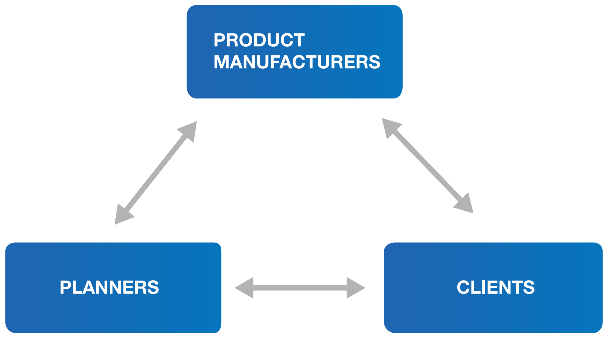
The FoFA changes have driven vertical integration of the financial advice industry and allowed the large institutions to assert their dominance and increase their market share.

Traditionally, the financial advice industry has been viewed in the model below, with the client often a loosely held concept.

However as the industry evolves and transitions to more of a service culture, we will begin to see direct links between the product manufacturer and the client – and indeed many large institutions already have direct offers that bypass the intermediary and target the end client in the hope of tapping into those who have a preference for buying services directly.

To deliver advice and products directly to clients effectively, product manufacturers need to better understand and respond to the needs of the consumer market.

The future advice model is more likely to resemble a circular relationship between product manufacturers, planners and clients which better aligns the culture of planners with the clients using their services and the product manufacturers developing the products.



CULTURE OF CLIENTS:

- Educated (financially literate)
- Market conscious
- Sophisticated in financial needs
- Want value for money
- Australian public don't trust planners due to historical trail commission structure
- Australians think a financial planner is only for rich people
- Increased desire for control and flexibility

7. ROADMAP FOR CHANGE

As the financial planning industry seeks to establish a roadmap for change, it is useful to reflect on a commonly used four-stage behavioural change process model developed by Rashford and Coghlan (1989).

The model incorporates a critical element that is often ignored in change management – the 'people' aspect, which can derail even the most well thought out change program and affirms the need to assess and build readiness for change among change recipients before any attempt is made to reshape behaviours.

The model incorporates the following steps:

1. Denying – "This doesn't affect us"
2. Dodging/avoidance – "Don't get involved"
3. Doing – "This is very important, we have got to do it now"
4. Sustaining – "We have a new way of proceeding"

The important thing to remember when building a roadmap for change is that change is fluid – with people moving in and out of different stages throughout the change process making it both iterative and complicated.

Dealing with people introduces a range of challenges, such as self-interest, habit, misunderstanding, low tolerance of change, economic implications and fear of the unknown.

PEOPLE-RELATED CHANGE CHALLENGES

- **Self-interest** – people are concerned with the implications for themselves. People's views can be biased by their perceptions of any situation (could lose job).
- **Habit** – It provides people with comfort and security and if well estab lished in daily routines it is difficult to break (change from sales orientated to customer service focus).
- **Misunderstanding** – Communications breakdown or not enough information is provided (not aware of the FoFA impacts).
- **Low tolerance of change** – People's sense of insecurity (age of the adviser).
- **Economic implications** – People will resist if they think it will affect their pay or other rewards (wages possibly reduced).
- **Fear of the unknown** – Any proposed changes can generate fear and anxiety and even uncertainty.

Norms that Promote Creativity and Innovation

Innovation often involves risk taking, non-standard solutions and unconventional teamwork practices, which are areas that are not easily managed with the traditional control systems.

The effective management of culture is critical in mobilising organisational creativity and innovation (Tushman & O'Reilly, 2002) and will rely heavily on leadership from licensees, product manufacturers and industry associations to guide planners through this critical evolution.

Central to these efforts is the establishment and continuous encouragement of behavioural norms that promote socially created expectations, which guide the attitudes and behaviours desired in the industry.

Over the years, academics have documented a variety of norms that consistently promote novel solutions in organisational settings. Below are six norms, derived from Tushman and O'Reilly (2002), which are said to promote creativity and innovation and will need to be adopted by financial planners as they seek to build sustainable

1. A focus on idea tation

Promoting idea-generating behaviours is the key for mobilising creativity. To encourage and sustain this norm, Martins and Terblanche (2003) emphasise that managers of creative environments need to promote open communication and forums of intra- and extra-organisational debate. Kanter (2002) noted that lack of information hinders creativity within organisational settings and that culture needs to encourage open discussions, constructive conflict, fair evaluation of ideas and fast approvals (Amabile, 1998; Kanter, 2002). All of this needs to happen in a positive, co-operative atmosphere, as conflict across internal units is likely to bring the opposite results (Kanter, 2002).

2. Supporting a continuous learning culture

Creativity is also mobilised in environments where continuous learning is a company-wide expectation (Martins & Terblanche, 2003). Employees should have a continuously curious attitude (Arad et al. 1997), which will allow them to discover and explore 'wild' or ground-breaking ideas and potentially identify novel and valuable solutions.

3. Risk taking

The creative process often involves risky endeavours. The generation of ideas requires experimentation and, as such, taking risks is usually unavoidable (and often necessary). Consequently, encouraging risk-taking behaviours needs to be part of the creative culture (Martins & Terblanche, 2003). To mobilise and encourage risk taking there is a need to avoid applying too many controls on the creative process, as this is likely to inhibit experimentation and impede 'creative flow'.

4. Tolerance of mistakes

Experimentation and risk taking is likely to lead to mistakes. Mistakes are therefore an everyday practice in creative environments. Martins and Terblanche (2003) argued that supporting a culture that tolerates mistakes and handles them effectively is central to encouraging staff to think and act creatively. Organisations that punish employee mistakes discourage creativity, inhibit change, and stifle innovation (Kanter, 2002). Creative organisations therefore need to acknowledge (and on some occasions even celebrate) failure and constantly create opportunities to openly discuss mistakes and learn from their pitfalls.

5. Supporting change

Behaviours that promote change in the work setting are likely to positively influence organisation creativity and innovation (Arad et al. 1997). To support creativity the culture must tolerate uncertainty (Kanter, 2002), promote and reward positive attitudes towards change and encourage employees to constantly challenge the status quo and explore novel ways of finding creative solutions (Tushman & O'Reilly, 2002).

6. Conflict handling

Change and constant experimentation are likely to lead to conflict in the workplace; conflict between colleagues, conflict between departments, conflict between individuals' creative freedom and the constraints set by the clients' commercial reality. Companies need to expect and tolerate conflict and handle it effectively in order to support creative behaviours in the work setting (Judge et al., 1997).

Behavioural Norms to Avoid

Encouraging and sustaining these behavioural norms in the workplace is, however, seldom an easy process.

Developing a culture for creativity and innovation will require financial planning practices to carefully mobilise the generation and implementation of ideas. According to Pfeffer (2002), this demands that managers avoid the following pitfalls:

1. Over-emphasising individual accountability

Despite the fact that innovation requires autonomy and personal initiative, overemphasising individual accountability can be detrimental to the creative process. Although staff need to be given individual targets and be evaluated against their achievement outcomes, Preffer (2002) noted that over-relying on individual accountability can lead to finger pointing and is likely to create a climate of fear which may discourage employees from taking the risks that are so important in the early stages of the creative process. Moreover, although individual performance appraisals serve as an essential human resource management tool they need to be carefully designed so that they do not substitute regular and informal feedback and do not promote a controlling and risk-averse culture.

2. Over-emphasising quantitative goals and budgets

Although for-profit organisations such as financial planning practices need to focus on the bottom line and consider financial constraints, Pfeffer (2002) argues that overemphasising quantitative goals and financial budgets rarely promotes a culture of perpetual discovery and innovation.

Objectives and financial constraints will certainly set the frame upon which the creative process will be initiated, but employees also need to be encouraged to ‘think outside the box’ and, if necessary, negotiate with the client or company for extra resources.

3. Punishing mistakes (contradicts the norms for creativity and innovation)

The way companies handle the inevitable mistakes of creative discovery can enhance or constrain creative processes at work.

Pfeffer (2002) argued that punishing mistakes is a common pitfall in corporate environments as it creates a culture of fear and hinders organisational creativity. Companies that are innovation-driven tend to promote a ‘forgiveness’ culture – a culture of empowerment and not punishment. Such a managerial attitude mobilises an action orientation across the organisation, where people focus on doing things rather than hesitating through the fear of the career consequences of failure.

4. Promoting internal competition

Promoting internal competition is often used as a means for mobilising initiative within work settings. However, innovation usually entails collaboration across intra- or extra-organisational boundaries. Consequently, promoting internal competition may hinder effective team work and stimulate organisational politicking that may prove to be detrimental to the creative process (Pfeffer & Sutton, 2002).

5. Striving to be the same

Although managers increasingly acknowledge the value of creativity and innovation as a means of developing and sustaining competitive advantage, paradoxically, many companies strive to be the same as their competitors. They use similar processes, generate similar products and avoid the implementation of ‘risky’ novel ideas and practices. Pfeffer (2002), on the contrary, argues that innovation requires managers to dare to be different, as the returns on successful innovations are generally far greater than those achieved through imitation. This suggests planners should steer clear of the ‘pack mentality’, focus on their ideal client and develop a value proposition that is suited to their strengths, rather than try to be something to everyone.

8. CONCLUSION

The type of culture that the financial advice industry is currently working towards and is the driver behind the FoFA reforms is one of a professional services culture, whereby the client is at the heart of what planners do.

This is a large departure from the historical sales culture born out of the life insurance industry, whereby planner remuneration was built around product sales, not service.

FoFA has provided the impetus required to kick-start cultural change at a broad industry level, but it is not just a shift towards professionalism that's necessary – the industry also needs to become more innovative and creative if it is to continue to grow and meet the evolving needs of increasingly sophisticated clients.

This white paper looked at the types of behavioural changes needed which can help planners adapt to the FoFA changes as well as the deeper cultural changes, which will take time to implement.

Now is the time for the industry to form a strong leadership coalition with independent and institutionally owned dealer groups working alongside the industry bodies to ensure the best collective outcome for advice clients.

The looming FoFA implementation deadline of 1 July 2013, at which point the reforms become mandatory, has created a sense of urgency – a key element in the 8-step model for change developed by Kotter (1995) – however many believe that planners and licensees are not acting fast enough to bring about change.

The potential consequences of not adapting to the new normal are clear within industries such as the retail sector, whereby many bricks and mortar stores have come under pressure after failing to adapt quickly enough to the trend towards online retailing.

Successful retail businesses have managed to shift shops from the high street to the home, allowing customers to shop from the comfort and convenience of their own computer and reshaping the customer experience.

Many advice businesses are already well on their way to meeting the low-cost advice delivery needs of consumers via phone and web channels, with much of this driven by the move by industry funds into the financial planning arena.

However planners that are dragging their heels and fail to see the opportunities that lie ahead risk becoming an artefact of an antiquated system that was in dire need of change.

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