

Profession and the Practice of Personal Financial Planning

by

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## Abstract

In the last third of the twentieth century, the financial, investment allocation, and management burden of providing for higher education, retirement, and the rising cost of health care, increasingly shifted from the government and corporations to the individual member of American society. As most were unprepared to bear that burden, an unfilled need came into existence for the middle-class individual or family to receive investment advice in order to effectively plan and manage a long-term investment portfolio. In the early 1970s the title *financial planner* began to commonly appear in literature, most commonly associated with the agents of life insurance companies who claimed to have the capability to meet that need. Within a decade, a set of organizations and pseudo-organizations had emerged offering credentialing titles. While their methods, definitions, and standards varied widely, they were in agreement that *financial planning* was a *profession*. While the specific definition of *profession* as an occupational category has been the subject of historical debate, there are relatively clear minimum requirements that can be identified from sociological and economic literature as well as from officially sanctioned lists of recognized professions. At present, personal financial planning, as defined by any credentialing organization or generally, does not meet those minimum standards. However, the opportunity exists for it to achieve professional status if a national organization representing the aspirant group claiming identity as *financial planners* establishes and enforces a clear set of mandatory standards for its members meeting those minimum professional requirements and is able to convince both society and the various state governments that it has done so.

## Chapter 1: The Practice of Personal Financial Planning

Sellers of personal financial products introduced the title *financial planner* into widespread common usage in the early 1970s and from that introduction, personal financial planning has been claimed by its advocates to be a *profession*. This thesis, however, will argue that it fails to meet even the most basic, generally accepted sociological and economic definitions of a profession. Even its advocates appear to have acknowledged that it fails to meet even the minimum criterion of being an *occupation*. This thesis concludes that the practice of personal financial planning is limited to a set of tasks constituting a *service* offered by existing generally recognized occupations.

In Chapter 1, this study will document the socioeconomic need that led to the emergence of the concept of *personal financial planning*, the attempts to meet that need by those calling themselves *financial planners*, and the development of the service product referred to as *financial planning*. It will then attempt to find a consistent and authoritative definition in current and historical published literature for each of the terms *financial planning* and *financial planner*. In Chapter 2, it will present a review of sociological and economic literature concerning the title, history, and accepted occupational definitions of *profession* and *professional*. This will lead to a relatively concise summary definition of the minimum characteristics of those occupational terms derived from a synthesis of historical and current sociological and economic literature. In Chapter 3, the study will then compare the published standards and descriptions of *financial planning* with those minimum characteristics required to achieve recognition as a *profession*. Finally, in Chapter 4, it will conclude with a summary and a set of recommended actions that an organization representing a substantial number of members who identify themselves as *financial planners* may take if it wishes to achieve professional recognition.

Two notes on terminology: First, *personal financial planning* should not be confused with *corporate* or *municipal* financial planning, which is primarily used to predict cash flows for debt funding. This study relates solely to the practice of personal financial planning performed as a compensated service provided for an individual, family, or family-controlled entity.

Second, this study will use a simplified hierarchy of labor categories derived primarily from the widely-used, university-level textbook, *The Social Organization of Work* (Hodson & Sullivan, 1995), from *Working, Conflict & Change* (Ritzer & Walczak, 1986) and from the landmark work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 1776), which will be more clearly defined in Chapter 2. That four-level, simplified hierarchy is structured as follows:

1. The lowest level of that hierarchy is the *job*, or *service*, which consists of a task or set of tasks done for compensation, but which does not constitute a full-time *occupation* (Job [n.2 Def. 2.a.1], 2008; Smith, 1776).
2. The next higher level is *occupation*: an identified set of services, skills, and tasks done in conjunction with and in support of each other, habitually practiced on a full-time basis, and which results in an official identity and public recognition being assigned to the skill set by society and its agent, government (Smith, 1776; United States Bureau of Labor Statistics, 2014a, Hodson & Sullivan, 1995).
3. A *trade* or *craft* is a full time occupation habitually carried out, normally with some degree of licensure or certification requirement, requiring specific technical education and often an apprenticeship period whereby a *technician* or *journeyman* performs an occupation under the tutelage and supervision of a master tradesman (Freidson, 1986). Trades commonly have one or more *trade organization(s)* or *association(s)*, which serve

as marketing agents, lobbyists, and advocates, and are largely funded by commercial product vendors wishing to influence members of the *trade* to sell their wares to the public (Trade [n. Def. 5.a.], 2014; United States Bureau of Labor Statistics, 2014a; Shooshtari, Walker, & Jackson, 1988).

4. *Profession* is the highest form of occupational labor category and consists of the rendering of a service that meets a need perceived as critical or vital to society and requires mastery of a deep and esoteric<sup>1</sup> body of abstract, specialized knowledge, based on an academically generally acknowledged *theory* to do so. A *profession* has organizational *autonomy*, generally acknowledged and legally granted *authority*, and a fundamental and widely accepted ethic of *altruism* in the form of a mandated, unselfish fiduciary duty to its clients or patients and to the general welfare of society (Hodson & Sullivan, 1995; Blau & Duncan, 1967).

This study will also be limited to the practice of personal financial planning in the United States, although reference will be made to parallel occupations and practices in other nations, particularly in the United Kingdom.

This chapter examines the literature documenting the socioeconomic changes that created an economic need for personal financial planning, and chronicles the development of the concepts of *financial planning* and *financial planner* as the terms were used commercially in published literature from late 1969 to early 2014. The chapter also reviews published literature for an independent, authoritative definition of (personal) *financial planner*.

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<sup>1</sup> *Esoteric*, adj., Of philosophical doctrines, treatises, modes of speech, etc. Designed for, or appropriate to, an inner circle of advanced or privileged disciples; communicated to, or intelligible by, the initiated exclusively (Esoteric [adj. Def. A.1.a.], 2014).



### **The Origin and Evolution of the Practice of Personal Financial Planning**

In the mid-twentieth century, as both life expectancy and affluence increased, the concept of retirement and university-level education became a realistic goal for many Americans, even as a necessity arose for greater mobility in order to remain gainfully employed and potentially advance in a career. These economic changes created a need for many middle-class families and individuals to invest in the portable asset classes of marketable securities and to find risk-management solutions, which were previously needed only by the most highly affluent (Altfest, 2004). By the early 1970s, a set of financial product salespersons, primarily composed of life insurance agents, recognized this as an opportunity to increase their financial well-being by providing seemingly comprehensive solutions. To differentiate themselves from single product-line sales organizations and agents, they began to describe themselves as *financial planners*, offering *personal financial planning* as a means to cross-sell multiple lines of financial products (Altfest, 2004; Dunton, 1986).

**Sociological and economic changes create a need.** In the year 1900, 37% of the population of the United States worked in agriculture, and life expectancy at birth was 47.3 years. By 1970, life expectancy had risen to 70.9, and only 3.1% of Americans worked in agriculture. Half of those who reached 71, or a quarter of the population, could then reasonably expect to live another 15 years, attaining the age of 84 before death (United States Bureau of the Census, 1975).

Before about 1940, the concept of an older *worker* retiring to reap the benefit of income without labor was exceptional; such retirement was generally limited to affluent professionals and executives at larger corporations. Wealthy families and individuals were certainly able to have income without labor, but they were rare, and the life of leisure generally was neither

related to age nor commonly available to those of moderate means. Agricultural workers and even farm owners were culturally expected to work, even in the face of limited physical ability, until they physically could work no more. From there, family members commonly supported them during the relatively short period that remained in most of their lives (Hodson & Sullivan, 1995).

In the years before the Great Depression of the 1930s, while industrialists commonly forced retirement on reluctant workers in order to enhance industrial productivity, older workers terminated from industrial occupations generally were not retired in the sense in which we understand the term today. Rather, they were relegated to less demanding jobs that, when combined with a multigenerational, extended-family living style and pooled family income, allowed them to survive until they were physically incapable of labor. During the Great Depression, and as a result of laws passed to address that landmark event, retirement at age 65 became both economically possible and a civic duty for a larger portion of American workers. The U.S. federal government adopted that policy for its employees, and advocated it in the private sector as a means to make jobs available to younger workers and as a way to help stabilize economic cycles. In the 1940 census, a new category appeared for American workers, as about 100,000 Americans, or 1.9% of the work force, reached the age of 65 and *retired*. Private retirement benefits for workers appeared in 1920, but by 1940, only about 160,000, mainly currently employed Americans were covered (United States Bureau of the Census, 1975).

Between 1940 and 1975, as part of a national economic policy, retirement was popularized, pushed, and glamorized both by the government and by the new retirement services industry. Mandatory retirement ages in government and industry occupations became the rule. Taxation on and reductions in Social Security benefits for those who chose to work later were

instituted as law. Furthermore, from a humanist perspective, increased longevity and an increasingly mobile population placed a moral burden on the nation to provide at least a minimum living income to people who had worked in society for decades and were now beyond the point of easily supporting themselves (Graebner, 1980).

By 1970, the census revealed that 4.7 million Americans were receiving private pension income in the occupational status, *retired*, but nearly 20 million, or about 23% of what would otherwise be the working population in America, were actually retired. That meant that over 75% of those retired were without the benefit of an employment related pension. These numbers reveal a retirement income gap that became increasingly evident to American workers (United States Bureau of the Census, 1975).

In an earlier age, the ability to live in a reasonable degree of comfort without gainful employment equated to ownership of productive real estate (Costa, 1998). By 1970, and in many occupations earlier, American workers were required to be increasingly mobile to achieve steady employment and more so if they wished to advance in their occupational career. The ability to invest in portable, productive capital assets emerged as the means to a comfortable lifestyle following the now socially accepted retirement age of 65. As the idea of retirement in one's 60s transitioned from a mandated removal from the work force to a civic duty and finally to a popularly desired end, Americans began to turn to the securities markets, and more specifically to mutual funds, to accomplish that end (Altfest, 2004).

Employee retirement funding, when it existed, was once the sole responsibility of the employer, who commonly contracted with one or more professional pension management companies to create efficient investment portfolios. With the passage of the Employee Retirement Income Security Act of 1974 (ERISA) and the Revenue Act of 1978, a new set of

retirement options became available that enabled an employer to transfer the risk and responsibility for investment management and retirement income to the employee (United States Employee Retirement Income Security Act of 1974, 1974; United States Revenue Act of 1978, 1978). The first such tax-deductible plan was created by ERISA itself, the individual retirement account (IRA), but despite the new IRA's ability to defer taxation on up to \$1,500 per year or 15% of wages, they were only available to employees who did not have any other form of pension plan. As a result, IRAs initially did not have high acceptance. In addition, the year 1974 marked the bottom of the most severe decline in the stock market since 1929, and while banks also offered IRAs, the interest rates were relatively low. It was not until the IRA contribution limits were raised to \$2,000 per worker per year or 100% of compensation and were extended to all workers by the Economic Recovery Tax Act of 1981 (ERTA), coupled with a dramatic change in the economy and market gains, that IRAs became widely popular. Contributions jumped from \$3.4 billion in 1980 to an average of over \$34 billion per year between 1982 and 1986 (United States Economic Recovery Tax Act of 1981, 1981; Holden, Ireland, Leonard-Chambers, & Begdan, 2005; Engen & Lehnert, 2000). At about the same time, mutual funds became popular investment vehicles for the general public in a media and market frenzy accompanying the ten-fold U.S. equity market growth from 1982 to 2000 (Engen & Lehnert, 2000).

Prior to ERISA and ERTA, the employee fortunate enough to have an employer provided pension plan normally knew little or nothing about the underlying investment portfolio. Those plans required the employer to estimate the life expectancy of its employee population and commit to funding their retirement income until death and were known as *defined benefit plans*. As life expectancies extended, the expense of funding that stream of income grew accordingly

and became an increasing economic drag on the minority of U.S. companies that offered them. Intense lobbying by both corporations that wanted to shift the retirement fund planning and management burden to the worker and those persons who wanted to see more widespread use of retirement plans was a significant factor in the passage of the Revenue Act of 1978. That act included a provision that became Internal Revenue Code (IRC) Sec. 401(k), and thus was born the *defined contribution* retirement plan (Sundali & Guerrero, 2009). By 1981, the IRS had issued proposed regulations governing the retirement plans defined by Internal Revenue Code Section 401(k), and requiring that the new plan contain multiple mutual funds. By 1984, 17,303 companies had established defined contribution plans for over 7.5 million employees (Employee Benefit Research Institute, 1998, 2005; United States Internal Revenue Code, Section 401(k), 2006).

Employees now found themselves with the daunting task of effectively planning their financial contribution to and managing a portfolio of securities to fund their own retirement (Engen, Lehnert & Kehoe, 2000). Unfortunately for those workers, their education or experience had not prepared them to effectively plan for or manage a retirement portfolio (Dolvin & Templeton, 2006).

Until the 1970s for most Americans, personal finance was generally both private and simple. The banker handled savings and made loans, the local insurance agency provided property, casualty, and life insurance, and most Americans filed their own income tax returns (Cohen, 1996). Beginning in the 1970s and intensifying through the rest of the century, the advent of defined-contribution retirement plans, high inflation, longer life expectancy, and increasingly complex investment retirement products created a widespread, critical economic need for families and individual workers to utilize marketable financial securities to provide for

their long-term future financial well being. Stockbrokers, the traditional sales force of the securities industry, were generally only available to the small percentage of relatively well-off American families who owned significant amounts of individual securities (Cohen, 1996).

A new descriptive title appeared in the print media at that time: *financial planner*. The descriptor (personal) *financial planner* first emerged in published literature in the 1940s (Minnesota, 1946, p.160), but between about 1970 and 2000, the use of the term grew by a factor of over 2,000<sup>2</sup> (Michel, et. al., 2011). The title commonly identified an insurance agent who, in an effort to expand customer use of his or her products, began to offer annuities and mutual funds to supplement life insurance offerings. The life insurance agents, who expanded into other product lines by offering, “financial planning” as a process to increase life insurance sales and sell additional commission-paying products, popularized both the term and the activity (Brandon & Welch, 2009, p.2).

**The birth and early development of personal financial planning.** As previously stated, persons identifying themselves as *financial planners* were providing investment, insurance, and financial advice as early as the 1940s; however, according to Brandon & Welch (2009) in their book, *The History of Financial Planning*, as well as the Charles Schwab Corporation (2007) in its publication, *The Age of Independent Advice*, and the Financial Planning Association (2014), the formal birth of personal financial planning occurred in a Chicago hotel conference room in December of 1969. In that meeting, called by Loren Dunton and James R. Johnson, 13 participants resolved to create an organization to supply recognition to those who met “not only the legal but also the ethical standards of financial counseling” and to “establish an educational institute providing a certification program outside of either the mutual fund or insurance

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<sup>2</sup> Google Ngram search terms: “financial planner,” 1880-2008.

industry...” (Brandon & Welch, 2009, p. 3-8). They further resolved to start an organization to support those goals. Following the meeting, Loren Dunton assumed control of both the newly formed organization and the proposed educational institution (Brandon & Welch, 2009).

By mid-1970, the *service* that the charter group had determined to create had been renamed from *financial counseling* to *financial planning*. The two organizations were the International Association for Financial Planning (IAFP) and the College for Financial Planning (CFFP). The term *Financial Planning* was favored by and advocated for by Lewis Kearns in his role as Director of Financial Planning and a manager for the Wellington Management Company, a leading mutual fund vendor. According to Brandon & Welch (2009), he had “strong convictions about the way mutual fund salesmen would be trained” (p. 5). Kearns went on to become the first Chairman of the Board of Regents of the College for Financial Planning and served for three terms. The College for Financial Planning initially did not offer an accredited academic degree, but instead awarded a title, *Certified Financial Planner*, which it later trademarked as CERTIFIED FINANCIAL PLANNER™ or CFP®, to its graduates (Brandon & Welch, 2009).

From its inception, the IAFP, described by Altfest (2004) as a “trade organization” (p. 53), allowed and encouraged membership by financial-product sales corporations and anyone practicing or interested in personal financial planning. The nascent organization needed money and solicited it from any source. Just as in the initial organizational meeting, Dunton called upon financial product manufacturers and sales organizations as sponsors (Brandon & Welch, 2009). In contrast, in 1973, the first graduates from the College for Financial Planning, feeling a need to separate themselves from the financial product sales and vending organizations, formed the Institute of Certified Financial Planners, or “ICFP” (Financial Planning Association, 2014). The

chronically underfunded ICFP persistently called for a strong and enforceable code of ethics and a path to profession; the IAFP, on the other hand, continued to offer membership to any person or corporation interested in using financial planning as an emerging and successful “product delivery system” (Brandon & Welch, 2009, p. 30). That schism in perspective and purpose would intensify until the ICFP, succumbing to financial pressures, merged with the IAFP in 2000 to form the Financial Planning Association (FPA®), an organization that has remained solvent by largely retaining the financial product vendor-funded, *trade association* orientation of the IAFP (Veres, 2011).

Given the background of its founders, it is not surprising that the IAFP, and thus the practice of financial planning it created, was “heavily product sales oriented” (Altfest, 2004 p. 53). Most of the attendees at the organizational meeting in 1969, many of whom went on to become influential shapers of the new organizations, were either veteran financial product salesmen, or executives of mutual fund or life insurance companies. Many were also members of the *Million Dollar Round Table*, a life insurance sales organization restricted to the top salespersons in the industry. Dunton and Johnson had made their livings selling vacuum cleaners, encyclopedias, and school equipment, and more recently, life insurance and mutual funds. Dunton had recently achieved a degree of success and notoriety in the life insurance and mutual fund sales industry as a motivational speaker at mutual fund and life insurance industry sales conventions and as the author of *How to Sell More Mutual Funds—especially to women!* (Brandon & Welch, 2009; Dunton, 1967). Prior to the founding meeting, Johnson and Dunton had shared their views at sales conferences about the need for a “better delivery [sales] system for financial services” (Financial Planning Association, 2014).

Loren Dunton, often hailed as the father of personal financial planning, supported this



sales orientation in his 1986 book, *Financial Planner: A New Professional*. Dunton's book and the many interviews Dunton recorded in the book clearly define the financial planner as primarily a salesperson, and the process of financial planning as an adjunct to the financial product sales process (Dunton, 1986). In the book, Dunton counsels persons who might wish to become financial planners to seek employment at life insurance companies with good commission payout and "free trips" (p. 208). Dunton also cites as evidence of the growing "profession" the large number of "financial planners in the field" as part of life insurance companies' "sales force" (p. 209). Dunton's most fundamental advice to prospective financial planners who wanted to be successful in the "profession" was "to be a good salesman," and he warned, "If you don't like selling, think about financial planning as a career or even a second career very cautiously" (p. 202).

As evidenced by the relatively short-lived ICFP organization, a small minority of financial planning practitioners objected to the financial product sales orientation. For example, early in the 1980s, a group of about one hundred CFP® practitioners began meeting to express their discomfort with the level of influence financial product vendors exercised over the IAFP and its resultant effective endorsement of high-commission financial products. In 1983, they formed the National Association of Personal Financial Advisers (NAPFA) and restricted membership to fee-only, full-time fiduciary, CFP® certificants (Cohen, 1996). Thus, from shortly after the inception of organizations claiming to represent *financial planning* as an activity, there was a division between those who viewed the activity primarily as a professional service that should not be associated with product sales, and those who viewed it as a better and more comprehensive selling methodology.

Meanwhile, the vast majority of the financial planning organizations continued to

proclaim financial planning as a *new profession* while at the same time, advocating it as an extension of the sales and marketing activities of the financial services industry. In a 2008 interview, Lewis Kearns stated that his motivation for attending the initial meeting and heading the board at the College for Financial Planning was his compulsion to “upgrade the profession” (Brandon and Welch, 2009, p. 10) – although, since the term *financial planner* had not yet been adopted as a descriptor at the time of the meeting, the context suggests he may have been referring to the “profession” of selling mutual funds (Altfest, 2004, p. 53).

This perspective is repeatedly echoed in Dunton’s (1986) book, in which he emphasizes the practice of financial planning as sales-oriented and -driven, but also, and often on the same page, makes the claim that it is a profession. The book provides a deeply insightful perspective on the status and history of personal financial planning as it existed in 1986, numerous interviews with those he considered to be past and present leaders in shaping the title, and a “Who’s Who in Financial Planning” list. Dunton also takes credit for founding the “profession” but repeatedly refers to financial planning and financial planning membership organizations as part of the “financial services industry” (p. 217). He also quotes John Keeble, one of the 13 attendees at the Chicago meeting and an early official in the IAFP, stating, “Financial Planning is a profession” (p. 64). In that interview, Keeble was asked about the three most important needs to be addressed by the financial planner and replied that they were “life insurance, disability insurance, and accumulation of capital,” in that order (p. 65).

By the mid-1980s, recognition began to emerge of the conflict of interest involved in having the same organization preparing students to take the test to be certified as financial planners and at the same time setting the standards for that test. In 1985, the College created the International Board of Standards and Practices for Certified Financial Planners (IBCFP),

separated itself from the newly found organization and granted the Board its copyright to the marks, CERTIFIED FINANCIAL PLANNER® and CFP®. The IBCFP later renamed itself the Certified Financial Planner Board of Standards (CFP Board). Despite the noble name and apparent intent, it would be a decade later, in 1995, before the Board began the process of actually creating and setting practice standards for “certified financial planning” (Financial Planning Association, 2014). In 1999 the Board published the first drafts of its *Standards of Professional Conduct* followed by a finalized version in 2002. While the Board recognized the need for a set of professional standards, including a fiduciary duty, it also allowed for the inclusion of an adversarial product-sales element in the relationship between the agent providing the financial planning service and the customer. In effect, the CFP Board decided that the same person whom it would require (aspirationally) to function as a fiduciary, acting in the *client’s* best interests, while preparing and presenting the financial plan document, could switch into an adversarial, *caveat emptor*, sales relationship with the financial services *customer* a moment later. The Board’s final *Code of Ethics and Professional Responsibility* (2003), uses the term “profession” or “professional” thirty-two times, but clearly points out that the code is “aspirational in character...” (Certified Financial Planner Board of Standards, 2003, p. 5). The short, two paragraph introduction to the Board’s *Rules of Conduct* also uses the word *professional* twice, but includes the disclaimer that “the *Rules of Conduct* are not designed to be a basis of legal liability...” (Certified Financial Planner Board of Standards, 2013a, p. 6). The *Practice Standards* are described in their introduction as a description of “best practices” (p. 6) rather than a set of mandatory minimum standards, but the publication uses the term “profession” or “professional” 169 times in defining those best practices (Certified Financial Planner Board of Standards, 2013a).

**A different role for personal financial planning.** During the late 1980s and early 1990s, the term *financial planner* was associated with scams, fraudulent investment offerings, and the collapse of numerous illiquid, high sales commission-paying, limited partnerships. It was particularly linked in the media with tax-shelter/real-estate limited partnership insolvencies. Possibly in reaction to the unpleasant media coverage, an increasing number of market-oriented investment and insurance agents began to call themselves *financial advisors*. Investors Diversified Services, Inc. (IDS), one of the early corporate advocates of personal financial planning as an occupational identity, renamed itself “American Express Financial advisors,” a renaming paradigm that was quickly emulated by other broker-dealers as they attempted to distance themselves from the now negative connotations associated with *financial planner* (Cohen, 1996). While the term *financial advisor* was previously rarely used, it began to take hold in the mid-1990s and has since grown in literary frequency of use to exceed that of *financial planner* (Michel, et al., 2011<sup>3</sup>).

By the end of the twentieth century, the term *financial advisor* was the dominant and officially recognized identifier for the practitioners in the nascent occupational group that in the 1980s were known as *financial planners* (United States Bureau of Labor Statistics, 2014b). In addition to the scandals associated with the personal financial planner identity in the late twentieth century identified by Cohen (1996), this collective change of identity decision may have been influenced by the CFP Board’s proclamation that it would take disciplinary action against anyone licensed to use the CFP® designation who called him or herself “a *Certified Financial Planner*” or “a *CFP®*” (Certified Financial Planner Board of Standards, 2014a).

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<sup>3</sup> Google books Ngram viewer. Search parameters used: “financial planner” and “financial advisor” with dates between 1880 and 2008.

While the policy was defended as a preemptive move to protect the Board's trademark ownership, it also effectively also prohibited those who were certified by the Board from referring to themselves as a *financial planner*. This prohibition effectively created a demand for a new self-identity term. By 2012, even the CFP Board was endorsing *financial advisor* as the occupational identity of those who offered personal financial planning, using the term five times in that context in a single press release (Certified Financial Planner Board of Standards, 2012). In that press release and in its broader use in the second decade of the twenty-first century, *financial planning*, when used in the context of investment and financial planning advice rendered to individuals and families, was no longer suggestive of an occupation, but of a *service* performed by a member of another specified occupation or profession.

The CFP Board of Standards, now the acknowledged arbiter of that service's definition, has clearly stated that it is composed of six tasks, which outline a standard of "best practices." The Board has also published on its website, an aspirational, but not mandatory, code of ethics that it recommends be followed by "financial advisors" while engaged in the service of *financial planning* (Certified Financial Planner Board of Standards, 2013a; Marsh, 2014c).

Early in the twenty-first century, the Financial Planning Association and the National Association of Personal Financial Advisers joined with the CFP Board to proclaim the CFP® designation as the preferred credential for those *financial advisors* who practice personal financial planning as a service, but the FPA continued as an "open-tent" trade organization, allowing membership without regard to credentialing and giving an increasing role to and relying more heavily on funding from corporate financial product vendors (Financial Planning Association, 2014; Veres, 2011). In early 2014 the Financial Planning Association announced it was accepting MetLife, a vendor of primarily commission-based insurance and investment

products, as its national sponsor (Shidler, 2014). MetLife, according to its Senior Vice President, Paul LaPiana, sponsored the FPA in the interest of continuing its leadership in the financial services *industry* by “shoring up its emphasis on increasing “professionalism” among its “*advisors who feature financial planning as a service*” [italics added] (O’Donnell & Schoeff Jr., 2014). For the purpose of this study, it is notable that the spokesman for the *official sponsor* of the *Financial Planning* Association went on the record stating that members of the identified occupational trade group, *financial advisors*, offer *financial planning as a service* rather than stating or even suggesting that the persons offering that service were part of an occupation or profession named *financial planners*.

Seventy years after the state of Minnesota identified personal financial planning as a practice, and forty-four years after the meeting that resulted in the concept of a financial planner as a “*new professional*” (Dunton, 1986), the identity of those who practice personal financial planning has evolved away from the term *financial planner*. Independent observers of the developing practice of personal financial planning have suggested that NAPFA is the most professional organization competing for dominance in setting standards (Cohen, 1996), but the name of that organization identifies its members as *Financial Advisors* rather than *financial planners*. Even in the eyes of its most enthusiastic adherents, *financial planning* is no longer identified as an occupation or profession, but merely as a task or service performed by some *financial advisors* (Arman, 2006; Veres, 2012).

### **Defining the Practice of Personal Financial Planning**

Determining an authoritative, objective definition for *personal financial planning* or *financial planner* is problematic. The United States Securities and Exchange Commission refers questions on designations and titles to the website of the Financial Industry Regulatory Authority

(FINRA), an organization that solely regulates the *sales activities* of securities broker-dealers and their representatives. FINRA warns readers that individuals who call themselves *financial planners* have no regulator, but may be regulated by various agencies that have granted them licenses for other activities, or they may have no credentials at all (United States Securities and Exchange Commission, 2012; Financial Industry Regulatory Authority, 2014).

The occupation *financial planner* is not listed in the Bureau of Labor Statistics (BLS) 2010 Standard Occupational Classification System (SOC), which classifies all occupations in which work is performed for pay or profit in the United States. The BLS does, however, list the term *financial planner* as a possible title that might be used by a person in the occupation *Financial Advisor* (United States Bureau of Labor Statistics, 2014b). A similar absence of clear definition exists at the international level. The International Standard Classification of Occupations (ISO-08) only lists *financial planner* as an example of a possible occupational title under *Unit Group 2412, Financial and Investment Advisers* (International Organization for Standardization, 2012).

While there appears to be no independent, authoritative definition for the practice, ISO 22222:2005 defines an international standard for *Personal Financial Planning* that very closely follows the *Standards* published by the CFP Board. An ISO definition is a non-binding, international *trade standard* created for the provision of a commercial *product* or *service*, not an *occupation* or *profession* (International Organization for Standardization, 2012); however, a literature search revealed no evidence of any firms or individuals attempting to become ISO-22222:2005 compliant in the United States. Ironically, the establishment of an ISO defining *personal financial planning* as a *service* rather than an occupation or profession was the result of efforts by the U.S.-based CFP Board, an organization claiming that financial planning is a

*profession* rather than a *commercial service, product, or activity* (Brandon & Welch, 2009).

While the International Organization for Standardization and the CFP Board have a clearly defined set of “best practice” standards for the *service* of personal financial planning, there is a striking absence of a common definition for *financial planner*. Thus, it is difficult to reasonably estimate the number of persons in the United States who refer to themselves by that title. As of April 2014, FINRA listed 131 different “professional designations” granted by organizations in the United States for persons who may call themselves *financial planners*, many of which claim their particular designation to be superior to all others (Financial Industry Regulatory Authority, 2014). The most prominent are the CFP Board’s CERTIFIED FINANCIAL PLANNER® or CFP® marks, the American Institute of Certified Public Accountants’ (AICPA) *Personal Financial Specialist* (CPA-PFS) credential, the American College for Financial Services’ *Chartered Financial Consultant* (ChFC) designation, and the National Association of Personal Financial Advisers (NAPFA), *NAPFA-Registered Financial Advisor* designation (Arman, 2006; Cohen, 1996). The AICPA lists 4,649 CPA-PFS practicing members on its Credential Holder Directory page (American Institute of CPAs®, 2010), while the CFP Board claims over 69,000 CFP® practitioners in the United States as of the end of 2013 (Certified Financial Planner Board of Standards, Inc., 2013b). No official published data could be found for the number of ChFC designees, but an article from February 2010 reports that The American College claimed 47,000 designees as of that date (Gleeson, 2010). The American College suggests that many ChFC holders additionally have the CFP® designation; so the two figures are not exclusive (American College, 2014). Finally, the commentary included in ISO Standard 22222:2005 states that there were estimated to be between 800,000 and one million persons in the United States identifying themselves as financial planners in 2005 (International



Organization for Standardization, 2012).

In the absence of a clear, objective definition of who, what, or how many financial planners there are in the United States, this study will center on the definition and standards published by the financial planning/planner advocacy organization claiming the greatest number of members, The Certified Financial Planner Board of Standards, Inc. At the same time it is critical to note that there are over 100 other organizations/designations claiming to represent financial planning and offering some form of certification to persons who wish to claim to in some way be certified in the field, and that whether by the BLS estimate of 275,000 *financial advisers* (United States Bureau of Labor Statistics, 2014b) or the ISO estimate of over 800,000 *financial planners* in the United States is more correct, the CFP Board certificants represent only a small minority of the group of people who may identify themselves as *financial planners*.

## Chapter 2: Profession

*Professions* are an institution peculiar to the Anglo-American socioeconomic system and constitute the apex of its hierarchy of labor. In the history of human sociopolitical evolution, *profession* is a relatively new mutation, emerging in the late eighteenth and early nineteenth centuries in the culturally competitive race for gains in the efficacy and efficiency of institutional productivity, as a unique Anglo-American economic modification oriented on reducing the global systemic risk of succumbing to the dominance of its competitors (Larson, 2013).

### The Origin and Evolution of Profession

The concept of *profession* as it became known in the late eighteenth century and is understood today was unknown in Greek and Roman classical civilizations. Lawyers in Rome were citizen-friends of the litigants who had the ability to present a classical argument before a judge or governing body, while physicians were generally slaves of wealthier families. Architects were likewise commonly slaves, or if they were freemen, public employees. It was not until the medieval period that the classic professions of arms, medicine, law, and the clergy (a category that included university educators) appeared and developed into the foundational model of *profession* used in the Anglo-American socioeconomic system from the late eighteenth century forward (Roos, 2001, p. 2259).

The modern term *profession* is derived from the post-classical Latin *professiun*; meaning to publicly take the vows of a religious order and, in doing so, accept both the discipline and the authority of the order (Profession [n. Etymology, c1174], 2007; Barnhart, 1988). The etymology of the word “profession” suggests it is important for a member of a profession to be able to personally identify with it. The clearest indicator of that identity is the ability to state, “I am a (name of profession),” thereby making a public avowal (Barnhart, 1988). When applied to an

individual as a descriptor, a member of a profession was one who could be trusted to not have ulterior financial or other motives because of his religious vow of poverty and probity, was educated and proficient in the field in which he claimed expertise, and was under the disciplinary supervision of and wielded the authority of the religious order he represented. The emergence of the modern terms *profession* and *professional* evolved initially from the medieval need to employ a *professed* member of a religious order to argue on one's behalf in litigation proceedings (Barnhart, 1988, p. 844-845). Until about 1200, and in some areas much later, litigious disputes were exclusively heard and determined in canonical courts before senior members of the clergy or their appointed clerical representatives (Brundage, 2008).

As that system secularized, the classical professions, all of which were initially composed of members of religious orders, emerged from church control. Prior to the mid to late eighteenth century, the classical professions and positions of military office were largely restricted to members of the landed classes, but in the 1800s, middle-class occupations, including those of dentistry, architecture, and engineering, began to transform their identities and practices through the process of *professionalization*<sup>4</sup> (Freidson, 1986; Larson, 2013).

The institution recognized in the Anglo-American socioeconomic system today as *profession* originated in the medieval monastic orders as they taught in the early universities. The *professors* were men of deep, esoteric knowledge who instilled the *doctrines* (teachings) both of the Church and secular knowledge, gleaned from the surviving documents of Rome and later, Greece. The *doctors* of those philosophies taught (instilled the *doctrine*), while the *masters* of specialized areas of knowledge took that knowledge and practiced it in medieval society, often

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<sup>4</sup> The process by which an occupational retail trade rises to general societal recognition as a *profession* or classically, a *learned profession* (Roos, 2001, p. 2259).

employing and tutoring less experienced apprentice-practitioners (bachelors) and directing paraprofessionals.<sup>5</sup> Contrastingly, labor- and mercantile-based organized occupations were called *trades*<sup>6</sup> and were practiced by journeymen, while knowledge-based occupations were called *professions* (taught by a *professor*) and were often practiced by *bachelors*; both bachelors and journeymen performed their *practice*<sup>7</sup> under the tutelage of a *master*. Thus the American university system of, bachelor's, master's, and doctorate degrees originated. Artifacts of that hierarchy can still be seen today in the legal firm where there are clerks, associates, and partners (masters) as well as doctors of law, whose role is to profess (professors). Likewise, the hierarchy of medicine includes interns, residents, and full physicians. A similar hierarchical structure is mandated for armed forces officers, engineers, airline pilots, architects, and other professions. Even the term *bachelor*, as in *bachelor's degree*, can be understood by observing the low pay and extensive hours a physician intern or a new law firm associate is required to tolerate in his or

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<sup>5</sup> Paraprofessionals are members of occupations that have many of the characteristics of a profession, but do not have the key attribute of *independence* in that they exercise the authority of their position only under the supervision and direction of a member of a recognized profession. Nurses are an example of a paraprofession as are paralegals.

<sup>6</sup> An artifact of the medieval *trade* definition can be seen in the labor movement organizations technically named *trade unions* originally organized to represent laborers employed by tradesmen.

<sup>7</sup> The actual practical work of an organized *trade* or a *profession* is referred to as a *practice* because in the medieval and renaissance periods in Western Europe, the journeymen and bachelors were, quite literally, *practicing* with intent of passing the guild examinations to become a *master*.

her context of a person who neither had sufficient income nor time to attend to a wife and family and thereby was not expected to be married (Larson, 2013; Freidson, 1970; 1986).

Professions began to proliferate from the later part of the nineteenth century through the twentieth century. Occupations that had traditionally been considered trades or specializations in labor began to campaign to be recognized as professions, seeking to control competitive entry and to increase both their social status and economic well-being (Ritzer & Walczak, 1986). In this emergence, the technically proficient technician or retail tradesman mastered the *theory* of his or her work and its implementation, while rising to direct the work of paraprofessionals<sup>8</sup> and other craftsmen. The newly emerged masters of specialized labor formed organizations and waged campaigns to monopolize their defined areas of practice (Freidson, 1986). The stated rationale was to prohibit unskilled and unscrupulous persons from entering an occupation on which the public was dependent and which required a high level of esoteric knowledge and skill (Cogan, 1955). This process of transformation of an occupation from *trade* to *profession*, called, *professionalization*, resulted in the public and legal acceptance of engineering, pharmacy, architecture, and other occupations as *professions* during the twentieth century (Roos, 2001; Hodson & Sullivan, 1995).

### **The Definition of Profession**

While the surrounding social and political issues are complex, this analysis will use a vastly simplified model of occupational hierarchy derived primarily from four sources: *The Social Organization of Work* (Hodson & Sullivan, 1995), *Working, Conflict & Change* (Ritzer & Walczak, 1986), *Professional Powers, a Study of the Institutionalization of Formal Knowledge*

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<sup>8</sup> Members of occupations that have many of the characteristics of profession, but operate solely under the supervision of a recognized professional (Hodson & Sullivan, 1995).

(Freidson, 1986), and *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 1776). In this simplified model:

1. The lowest level is the *service or job*, defined as: “An isolated or casual piece of work, undertaken for a one-off payment or on a hire basis. Hence also (*depreciative*): a task or transaction performed perfunctorily or opportunistically for profit” (Job [n.2 Def. 2.a.], 2014; Smith, 1776).
2. The second level is the *occupation*, defined as: “The state of having one’s time or attention occupied; what a person is engaged in; employment, business; work, toil” (Occupation [ n., II. Def. 4.a.] 2014). Occupations are composed of related jobs or services habitually done in conjunction with one another on a full-time basis (Hodson & Sullivan, 1995).
3. The next level above occupation is the *trade*, or *retail trade*, defined as:

The practice of some occupation, business, or profession habitually carried on, esp. when practiced as a means of livelihood or gain; ...now usually applied to a mercantile occupation and to a skilled handicraft, as distinct from a profession (*profession n. 7a*), and spec. restricted to a skilled handicraft, as distinguished from a professional... occupation on the one hand, and from unskilled labour on the other (Trade [Def. 5.a.], 2014).

Or, as defined by the United States Bureau of Labor Statistics (BLS), “The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise” (United States Bureau of Labor Statistics, 2014a; North American Industry Classification System, 2012, 44-45). Trades are organized occupations, generally having educational and licensing requirements and represented by one or more *trade associations*. They are delineated from professions by several factors,

which include, among others, an adversarial, *caveat emptor*, relationship with their customers, as compared with an *altruistic*, fiduciary relationship officially maintained at all times by professions in their relationship with their *clients/patients* and governmentally granted special authority and/or exemptions from certain laws awarded to professions but not to trades (Ross, 1916; Ritzer & Walczak, 1986; Kleiner, 2000).

4. The highest level of the occupational hierarchy and the focus of this analysis is the *profession*, defined as:

An occupation in which a professed knowledge of some subject, field, or science is applied; a vocation or career, especially one that involves prolonged training and a formal qualification. Also occas. as mass noun: occupations of this kind. In early use applied *spec.* To the professions of law, the Church, and medicine, and sometimes extended also to the military profession. (Profession [*n.* II Def.7.a.], 2014)

Professions are defined and can be identified by four hallmarks: *abstract, specialized knowledge, autonomy, authority, and altruism* (Hodson & Sullivan, 1995).

*Professionalization*, as previously defined, is the process by which an occupational *retail trade* transforms itself to become recognized as a *profession*. There are other strata and processes important to the understanding of profession, including *paraprofessional, semiprofessional, and deprofessionalization*; however, as they are peripheral to the objectives of this study, they have been thereby largely omitted (Roos, 2001; Larson, 2013; Hodson & Sullivan, 1995).

Without exception, professions are occupations that have successfully created a state-endorsed monopoly of power. That power developed from a societal respect for a clearly identifiable group of practitioners whose skill set effectively addressed a critical need. The skill set was based on a functionally effective theory, which led to a deep, esoteric body of knowledge

not available to non-practitioners. Importantly, the state-endorsed monopoly of professional practice was the result of an often-lengthy process in which the profession collectively assumed and enforced characteristics designed to prevent the abuse of that monopoly. For example, physicians are forbidden from receiving sales commissions for the prescription of a medication or procedure, and must limit their compensation to fully disclosed fees charged for service (Ross, 1916; Freidson, 1986, 2004).

In the United Kingdom, the status of *profession* has evolved to formally include at least 38 governmentally recognized professional organizations and 86 regulated professional titles and designatory letters<sup>9</sup>, and in North America, 57 internationally recognized professions listed in the North American Free Trade Agreement (United Kingdom National Contact Point, 2014; North American Free Trade Agreement, 1994). Many countries, particularly outside of the United States draw their definitions of both occupations and professions from *The International Standard Classification of Occupations* (ISCO-08). In its Major Group 2, “PROFESSIONALS,” it lists six major groups and 56 unit groups, each of which typically includes several occupational titles (International Organization for Standardization-08, 2012).

The regulated professions, protected professional titles, and designatory letters in the United Kingdom are part of a European Union-wide system created by *Directive 2005/36/EC of the European Parliament and of the Council on the Recognition of Professional Qualifications*, which carries the authority of an international treaty and supersedes national statutes. Thirty-eight UK professional organizations granted self-regulating authority are listed in the Directive. The other nation-states of Europe, other than to a limited extent, Ireland, appear to treat the same

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<sup>9</sup> A set of letters representing a professional title following a professional’s name and restricted by statute and Royal Decree to use by members of one of the Royally Chartered Associations.



list of occupations more as regulated trades than as conventional *professions*, as evidenced by the absence of professional associations or societies and their accompanying absence of self-governance authority (European Parliament Directive 2005/36/EC, 2005).

The value given to professions in the Anglo-American system and so notably absent in others is highly influenced by culture. The further one gets from the centers of Anglo-American culture, the less the socioeconomic set we call “profession” seems to have cultural significance. Even in Germany and France, from whence the Anglo-American socioeconomic model once drew much of its language and cultural foundation, the available literature suggests that the term has only come into use recently, and in both countries the English word *profession* is used rather than a native language equivalent (Wörterbuch, 2014; Sciulli, 2007).

Freidson (2004) and Sciulli (2007a) describe the unique status of *profession* in England and the United States partially by contrasting it with the absence of any such occupational class or even parallel cultural term in continental Europe until the introduction of the English term and concept into continental literature. There, state-dominated training and employment resulted in an entrenched bureaucracy in which the school from which one graduated was paramount for non-landed nobility in achieving a social status above that of *tradesman*. Simply put, the institution of *profession* in the Anglo-American socioeconomic system is an alien concept elsewhere. Significantly, beginning in the last half of the twentieth century as the Anglo-American economic model rose to dominance in an increasingly global environment, the English word *profession* began to appear, along with a fledging emergence of the professional occupational class internationally (Sciulli, 2007; Freidson, 1994).

Eliot Freidson (1986), one of the most significant and prolific academic writers of the late twentieth and early twenty-first centuries on the subject of *profession* and *professionalism*,

distilled the essence of why the Anglo-American socioeconomic system so highly values profession in a single sentence. In The Anglo-American worldview, “Knowledge becomes power, and profession stands as the human link between the two” (Freidson 1986, p. ix). In the Anglo-American socioeconomic system, *knowledge* is the source of wealth and progression, but is commonly so esoteric and complex that much of society is unable to benefit from it in its raw form. *Profession* bridges the gap between that esoteric knowledge and its practical application to better the lives of those who receive it. The person who wishes to build an office building normally cannot be proficient at the architectural and engineering requirements to create a safe and effective structure and thus hires a qualified, professional architectural and a professional engineering firm to act in a fiduciary, altruistic role on the owner’s behalf. The same issue of deep, esoteric knowledge not comprehensible to a lay person but needed to address a problem, solved by employing a member of a profession, applies in the case of a legal, medical or other professional issue.

A contrast can be drawn between those service examples provided by professions, and the services provided by a tradesman. Tradesmen generally fall into two categories: those who act in a sales capacity requiring some degree of technical knowledge, but do not substantially modify the product sold, and those who supply a technical service to repair or construct items or facilities. In both cases the current occupational titles used are most commonly that of *salesperson* or *technician* (Trade [n. Def. 5.a.], 2014; Freidson, 1986). A contractor involved in the building process, as a tradesman, must have his or her work inspected by either a professional, such as a professional engineer, or by a qualified building inspector employed by a governmental entity. An agent of a *profession* is the final authority in the provision of a complex service or task, which the recipient, the client, is not capable of comprehending and thereby

rendering effective judgment as to the appropriateness of the actions of the provider. In most cases, a *trade* represented by a *technician* provides a service or product the customer could accomplish or obtain on their own, but *chooses* to delegate to a worker in as a matter of convenience or necessity, whereas a *profession* provides a *service* that the *client* cannot or could not accomplish because of the lengthy specialized education and training needed to effectively deliver that service (Ross, 1916; Freidson, 1986).

### **Approaches to the Study of the Nature of Profession**

The sociological study of profession and the role of professionals in Anglo-American society emerged largely in the early nineteenth century as an attempt to retroactively define profession according to the existing cultural meaning. The Anglo-American understanding of *profession* is highly cultural and was significantly shaped by the nineteenth and early twentieth century written and spoken terminology of that time as well as the peculiar socio-economic environment in the United Kingdom and America (Roos, 2001, p. 2261-2262; Freidman, 1986). Starting in the mid-twentieth century, however, the literature devolves into a debate on whether professions actually exist as a separate class of occupation, and if they do, whether they are beneficial or detrimental to society (Marutello, 1981; Cogan, 1955; Abbott, 1988; Larson, 2013). The initial attempts to understand the cultural phenomenon of *profession* started, as did the classification system in biology, with a focus on observable *traits* professionals had in common as a means of delineating a profession's difference from other organized forms of labor. A second wave of analysis emerged in the 1960s as students of Marxist and socialist philosophies focused on the *power* possessed by the professions and challenged the concept of profession in terms of class struggle (Freidson, 1986). The most recent conceptual approach to understanding professions has come from the field of neo-institutional economics, which defines a socio-

political economic system as a competitive *institution*, not unlike an ecosystem, composed of other competing institutions and operating according to the rules, relationships, and myths of the larger system. In that approach, *profession* is a form of socio-political economic institution, which in the case of the Anglo-American system has provided a significant competitive advantage over other, competing systems around the world (North, 1981, 1990).

**The trait approach.** The initial sociological approach to understanding professions, which continues in a modified form today, attempts to define the nature of *profession* in terms of its unique *traits*. For example, Peter Wright (1959) summarized the social understanding of the term as follows: “A self-disciplined group of individuals who hold themselves out to the public as possessing a special skill, derived from training or education and who are prepared to exercise that skill primarily in the interest of others” (p. 62). Wright’s summary, typifying the *trait approach*, is notable for its inclusion of *altruism*—the use of a special, educated skill primarily *in the interest of others*—as a primary defining characteristic of *profession* (Altruism [n. Def. 1], 2012).

Haga (as quoted by Marutello, 1981), published a summary of the sets of criteria others before him had determined were the common traits of *professions*:

Typically, any one sociologist’s set includes the following:

1. A profession is an occupation that involves service to the public.
2. A profession is an occupation that requires long training for its entrants.
3. A profession is an occupation that embraces a code of ethics sworn to be upheld by its practitioners.
4. Professions publish learned journals upgrading their practice.
5. Professions form associations to hold professional meetings.

6. Professions use examinations as barriers to entry into their practice.
9. Professions limit their practice to members licensed by the state or certified by their association boards.<sup>10</sup> (p. 246)

Haga's list of common criteria has at its *first* criterion that a profession is an *occupation* "...that involves service to the public." In other words, *altruism* again is the prime, or first, characteristic that sets the professional apart from the technically proficient tradesman<sup>11</sup>.

The trait approach definition of profession evolved in the late twentieth and early twenty-first century. David Sciulli (2007), in his paper *Professions Before Professionalism*, quotes contemporary sociologists Michael Burrage, Konrad Jarausch, and Hannes Siegrist in what he describes as "the most notable (and often-cited) current effort to define professions." According to them, Sciulli (2007) states,

A profession:

- Is a full-time, liberal (non-manual) occupation;
- Establishes a monopoly in the labor market for expert services;
- Attains self-governance or autonomy, that is, freedom from control by outsiders,

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<sup>10</sup> Left out of the Haga quote are numbers 7 and 8. Those two criteria were: first, that professions distinguished themselves by some form of uniform, a criterion that still applies to the military, judges, and to a lesser degree, physicians and clergy; and second, that professions were forbidden to advertise their services. This criterion still applies to judges and the military, but following the Supreme Court ruling in *Bates v. State Bar of Arizona*, 433 U.S. 350 (1977), attorneys, pharmacists, and physicians have been authorized by their respective governing professional bodies to advertise their products and services to the public.

<sup>11</sup> Referred to by Freidson (1986) as a "technician."

whether the state, clients, laymen or others;

- Training is specialized and yet also systematic and scholarly;
- Examinations, diplomas and titles control entry to occupational practice and also sanction the monopoly;
- Member rewards, both material and symbolic, are tied not only to occupational competence and workplace ethics but also to contemporaries' belief that their expert services are 'of special importance for society and the common weal.' (p. 121)

In the place of the clear altruistic definition listed in earlier summations, Sciulli (2007) instead notes that the societal contemporaries of the profession recognize it and grant to it the special status privileges held only by professions because of a consensus belief that the profession's services exhibit a "high level importance for society and the common weal" (p. 121).

A review of published works by sociologists and historians going back to the nineteenth century confirms the lists compiled by Haga (1974) and Sciulli (2007) in their description of the most notable and most often cited characteristics of a profession, but in an effort to bring the characteristics into the twenty-first century, Gardner & Shulman (2005) created a widely cited set of six criteria, which they call *commonplaces*:

A commitment to serve in the interests of clients in particular and the welfare of society in general; a body of theory or special knowledge with its own principles of growth and reorganization; a specialized set of professional skills, practices, and performances unique to the profession; the developed capacity to render judgments with integrity under conditions of both technical and ethical uncertainty; an organized approach to learning from experience both individually and collectively and thus, of growing new

knowledge from the contexts of practice; and the development of a professional community responsible for the oversight and monitoring of quality in both practice and professional education. (p.14)

The Trait Approach characteristics have elements both in common with and unique to each writer's perspective. Generally, they are idealistic and sometimes overly specific, reflecting the ethos of the time in which they were written. Later in this study, a more conceptual, succinct, flexible, and less chronologically restrictive set of trait-like criteria will be discussed.

**The power approach.** Advocates of the power approach argue that professions do not necessarily possess the traits used to describe them as much as they have been successful in convincing the public and traditional sociologists that they do. This approach, inspired by socialist, egalitarian philosophy, generally views professions as monopolistic, capitalist entities that exist primarily to enrich their members at the expense of society. Advocates of this approach define profession as guilds of tradesmen intent on protecting labor markets for their services and the trait approach as a form of myth or propaganda intended to maintain the status and privilege of their members. Unlike some adherents of the trait approach, the power approach emphasizes that professions in the Anglo-American economic model uniformly have obtained at least a degree of legally enforceable monopoly and state statutory recognition. The *power* approach acknowledges that professions arise and maintain their status in areas of indeterminacy and uncertainty, where tasks exist that cannot be broken down or otherwise routinized and which require extensive, esoteric education and experience to effectively address. Its advocates argue that society would be better served by the continental European governmental bureaucratic model in which the services provided by professionals in the Anglo-American system are instead offered and controlled by the nation-state, i.e. by government employees (Freidman, 1986; Roos,

2001; Larson, 2013; Ritzer and Walczak, 1986).

**Neo-institutional economics.** In the past several decades, a new and perhaps more effective method of understanding the nature and role of professions in society has emerged: *neo-institutional economics*. Classical and neo-classical economics are founded on the concept that individual actors in an economic system are the baseline, and that by theorizing what a hypothetical, perfectly rational individual<sup>12</sup> would do in a given situation, large and small scale economic issues could be resolved. The new-institutional approach, referred to variously as *neo-institutional* or more commonly, simply *institutional economics*, assigns the fundamental role in a socio-political economic system to *institutions*. As explained in more detail below, *institutions* are composed of laws, rules, relationships, and traditions and are the controlling environment in which the individual actors are both constrained and directed in their economic choices and activities. Institutions in their largest aspect constitute what in anthropology are called *cultures*—or even *civilizations*—which are themselves, composed of many cooperating and competing institutions, all working within the institutional rules and relationships of the culture, civilization, or nation-state (Davis & North, 1971, North, 1981, 1990, 2005).

This new paradigm views professions as base-line institutions, which are part of and function both within and in a combination of economic competition and cooperation with other societal institutions, which collectively comprise a socio-political-economic system. In this view, professionals are the agents of professional organizations, which in turn are subject to and given authority by other, higher level, professional organizational institutions. Those professional institutions are granted that authority by the socioeconomic system, through its agent, the state (Muzio, Brock, & Suddaby, 2013; Freidson, 1986). An example of the transformation, or as

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<sup>12</sup> Often referred to in economics as *the economic man* or *homo economicus*.



Freidson (2004) puts it; “rebirth” of professionalism from individual actor to institution can be seen in the medical profession. As late as the mid-twentieth century, physicians often operated primarily as independent professionals, but by the beginning of the twenty-first century the single-physician office was unusual. Instead, the authority and legitimacy of a physician largely stemmed from his or her position at a clinic, hospital, or medical center (Freidson, 1994). In effect, the profession that once mainly consisted of individual professionals had become primarily a formalized *institution*.

In 1993, Douglass C. North was a co-recipient of the Nobel Prize in Economics for his body of work on institutions as the fundamental structural forms of a socioeconomic system. North’s work demonstrates that institutional innovation is one of the most critical elements in the survival and growth of a socioeconomic entity. He is cited by the Royal Swedish Academy as discovering this concept: “Effective economic organizations are the key to economic change. ‘Institutions are sets of rules, compliance procedures, and moral and ethical behaviour of individuals in the interest of maximizing the wealth of utility of principals.’” (Royal Swedish Academy, 1993).

In other words, an institution is not an assemblage of people, or even organizations, but rather *a specified set of rules and written relationships within a structured set of situations, which creates a societal entity and reduces the cost and risk of economic transactions*. North’s contributions include models by which institutions come into existence and the criteria by which one can recognize both the existence of an institution and its viability in a socioeconomic system. According to North, institutional viability can be measured by the utility added or detracted from that system. His thesis is that the sole validity for the existence of any institution is the degree to which it lowers the cost of and/or stabilizes economic transactions (North, 1981).

Sciulli (2009), while seeking a common set of traits in the sociological tradition, defines profession in a manner that clearly parallels North's institutional approach. He notes that in all circumstances and throughout history, professional practitioners, their associations, and their instructional facilities have had a similar set of well-defined characteristics. First, they provide a defined set of expert occupational services "on the basis of an *independent socio-cultural authority*" (p. 181) (North's *societal entity*) and within *structured situations* (North's *set of rules and written relationships within a structured set of situations*). Second, professional practitioners are invariably held accountable to two fiduciary responsibilities: one to the client, and the other to the *institution* delegating the professional authority to the practitioner—in North's terms, the *societal entity*. This *altruistic, fiduciary responsibility* effectively lowers the risk and thereby the economic cost of transactions, again paralleling North (1981). Professional practitioners, individually and through their institutions, both control and patrol their identifiable jurisdictions through societally granted monopolies in their structured situations. It is through the patrolling and controlling of their jurisdictions, as well as through the fiduciary discipline evidenced by both the professional institutions and their members – not just by the delivery of expert service – that the grant of authority and autonomy is warranted by society (p. 181). This grant of authority is given in exchange for a pledge by the profession both as institution and individual, to both set and enforce a high standard of altruism, that characteristic that allows complete trust even in a profoundly asymmetrical, knowledge-based transaction, thereby lowering the intrinsic economic cost of potential asymmetrical gain and loss in an unequal negotiation. Thus it is *altruism* more than any other trait that satisfies North's requirement that for an institution to be viable in a system it must lower the cost of the intrinsic economic transactions.

**The four hallmarks of profession.** Hodson & Sullivan (1995) identify four common

principles in the sets of professional criteria provided above, as well as in the rest of sociological literature relating to the institutional characteristics of profession. Those four distinguishing principles, or “hallmarks” in the words of Hodson and Sullivan, are: *abstract, specialized knowledge; autonomy; authority; and altruism*. They apply both to the institution, which is the *profession*, and to the agent/practitioner, the *professional*. Each principle will be explored individually in the following paragraphs.

*Abstract, specialized knowledge* requires extensive, lengthy, and highly specialized education taught in an entry-restricted, higher educational curriculum. The knowledge must have a strong base of clearly articulated theory within the academic community. A careful search of the underpinnings of professions, both minor and major, that have attained public and/or governmental recognition reveals no recognized profession without that critical element. While retail trades commonly make use of the theories that form the foundations of professions, the mere use or sale of the products or knowledge by a technically competent worker or *technician* does not equate to *profession*. It is the in-depth comprehensive knowledge of the theoretical basis of a nascent profession, researched, established, and taught at universities, that creates the foundation for the advanced degrees and the service that defines a professional (Hodson & Sullivan, 1995, p. 288-289; Black Jr. et al, 2002; Lester, 2013). Professions have not always required university degrees of their members, but by the end of the twentieth century, the requirement for full entry in most U.S. professions had been elevated to a minimum of a master’s degree or its equivalent (Abbott, 1988, Brint, 1994). A review of the various lists of professions, as opposed to licensed technical occupations, recognized by the North American Free Trade Agreement and United Kingdom Royal Charter reveal full professional recognition in each profession requires the issuance of a corresponding specialty degree by a nationally accredited

institution of higher learning, certified in the respective field by the specific professional association representing that specialty (United Kingdom National Contact Point, 2014; North American Free Trade Agreement, 1994).

*Autonomy* is self-governance by one or more governing organizations, which have received that privilege from society via the state. Professions have the ability, through their organizations, to set the standards for admittance to the profession and use of the professional title as well as the power to banish members from the practice of that profession with the force of statute law. This power is and must be recognized by the state and enforceable in courts of law in order to meet the standard of “profession” (Hodson & Sullivan, 1995). Autonomy applies both to the institution that constitutes the profession and to the professional to whom the institution has delegated authority to act as its agent. Autonomy implies, as in the medical profession, that a professional can choose among accepted therapies, and, within limits defined by the professional organization, can choose to apply certain experimental therapies. A profession’s autonomy springs from its foundational theory and extensive, esoteric knowledge. The Anglo-American system implicitly accepts that such knowledge cannot be adequately judged or regulated by the lay community and thus establishes quasi-governmental boards composed of both professionals and lay members to have jurisdiction over both entry and ejection from the privileged autonomous status<sup>13</sup> (Freidson, 1970; Hodson & Sullivan, 1995).

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<sup>13</sup>In the United States, the presence of a state board is significant. State boards operate under the authority of that state and hold the power to recognize, grant, and revoke the license of a certified member of a profession. States have licensing boards and agencies for a large list of occupational licenses, many of which are not professions, but all generally recognized professions have the requirement of specific state license or recognition in order to practice in

*Authority* is derived from mastery of the body of knowledge springing from a profession's underlying theory. Mastery is typically signified by at least a master's degree or its equivalent from an accredited institution of higher learning. A profession, and a professional acting as an agent of the profession and within the boundaries set by the professional organization, has the right and duty to set the standards by which professional actions will be accomplished. This is a key difference between technical or mercantile *trade* and *profession*. A profession's knowledge is sufficiently esoteric that a client is incapable of rendering a complete judgment. In a trade relationship, the customer generally sets the standard of performance, because while the tradesman may have greater skill to perform the service offered, the client and the public have sufficient understanding and knowledge of the practice to render judgment without extensive, formal education or training (Ross, 1916). A professional, often within legal boundaries, is the final authority on how and to what standard professional actions will be accomplished. An agent of a professional institution has both the right and the duty to say "no" to a client and prescribe a different form of treatment. The professional's higher calling is to the standards of the profession, and while the client's desired end results may shape the actions taken by the professional, those actions, once agreed to in principle, are under the control of the professional (Shooshtari, Walker, & Jackson, 1988).

Of equal importance is the authority that the professional has over other occupations as that state. The principal differences between licensed trades regulated by the state and professions is that professions have national and state organizations that certify either the school granting the prerequisite educational degree, or actually certify the applicant as an application requirement for approaching the state licensing board, and after licensing, self-patrol the behavior and practice standards of the licensee member (Buhai, 2012, p. 266-271).

they carry out the work designated by the professional. A professional both takes responsibility for and has full authority over the actions he or she directs in the name of the client. Workers in other occupations involved in the execution of the tasks necessary to accomplish the professional's objectives, including paraprofessionals, accept the directions of the professional, insofar as they are within established legal and ethical standards (Black Jr. et al, 2002; Warschauer, 2002; Hodson & Sullivan, 1995).

Another aspect of professional *authority* is that the state authorities grant what otherwise would constitute governmental authority to the professional institutions, based on the institutional set of enforced standards. That authority normally includes a monopoly on the structured professional practice of the occupation (Hodson & Sullivan, 1995). The institution is the grantor of the professional designation, individual professional authority, and in some cases, professional licensure, often through a state board comprised of both professionals and appointed laypersons. The professional institution actively patrols and polices the standards of professional practice, determines entry standards – including the academic curriculum of a mandated university specialized education – and both advocates and represents the profession to state governing authorities (Freidson, 1986).

*Altruism* is a word taken from the 1853 English translation by G.H. Lewes of *Compte's Philosophy of Science*, I. xxi. 224, "*le bien, le droit d'autrui.*" It literally means, "the good, the right of the other" or more simply, *unselfish behavior* (Harper, 2014; Altruism [n. Def. 1.], 2012). The term *altruism* entered the English language just as the emergence of the traditional professional occupations were being defined as such and became a hallmark of *profession* from the beginning of the institution. It is a prime factor distinguishing a profession from other forms of occupation (Hodson & Sullivan, 1995).

Professions universally have a mandatory code of ethics, the violation of which is both grounds for legal banishment from the right to practice the profession, and commonly punishable in a court of law. A profession, and by extension its agent, the professional, sets the welfare of his or her client and society at large ahead of his or her own, and does not profit from the actual execution of the prescribed actions other than from fully disclosed fees for the supervision or execution of the tasks. In other words, a professional does not both prescribe and then sell the prescribed product. A professional may have authority, but with that authority comes the duty to avoid conflicts of interest whenever possible, and if they cannot be avoided, to render a full and complete disclosure to the client in a manner that will convey a complete understanding of the implications of that conflict. The burden of communication regarding any conflict of interest is on the professional, not on the client (Hodson & Sullivan, 1995).

### **Summary & Conclusions**

The sometimes conflicting definitions of who or what is or is not a profession or a professional are consistently from sociologists who seek to find common ground in the behavior of *individuals*; however, all the definitions agree that a profession must have an independent, self-governing *organization* to which individual practitioners must be bound in order to be recognized as a member of the profession. The traditional attempts to define profession by the actions of its members constitute inductive reasoning; i.e. reasoning from the specific to the general. A theory of profession based on deductive reasoning, as employed by institutional economics, is far more likely to yield a workable, consistent and accurate result (Barker, 1965).

If an occupational trade collectively wishes to achieve recognition as a profession through the process of *professionalism* there are several minimum requirements. There must be a consensus in a socioeconomic system that the service offered by the aspiring organization is

important enough to warrant the grant of, *first*, extra-governmental autonomy, and, *second*, self-governing authority. *Third*, the characteristic of altruism engenders the trust necessary for society to grant exclusive and extensive power to a profession; so the organization must be capable of forbidding and policing that prohibition on the self-dealing tendency of its members. *Fourth*, the combination of providing a critical service and the self-discipline of altruism must be joined to a deep theoretical knowledge set accepted and established by the academic community. This set of knowledge must be sufficiently esoteric and in such depth that the lay members of the society granting professional status either cannot or are not willing to pay the price required to reach proficiency. Such a knowledge set typically requires a specialized university degree plus significant post-graduate education (Hodson & Sullivan, 1995).

Examples of this may be seen in many recognized professions, including the medical, legal, and engineering professions. A physician with the title *medical doctor* (MD) must have at least a bachelor's degree from a school accredited by a nationally recognized association, and a doctorate issued from a medical school accredited by the American Medical Association's Liaison Committee on Medical Education (American Medical Association, 2014). Similarly, in order to become an attorney, an applicant must first have a bachelor's degree from an accredited school of higher learning, and then graduate from an American Bar Association accredited school of law with a *Juris Doctor* (JD) degree. Only with those prerequisites may a candidate apply to sit for the *bar exam*, administered by the state bar association (American Bar Association, 2014). A Professional Engineer, a more recent entrée into the generally accepted professions, is required to hold a bachelor's degree and a master's degree in engineering or its



equivalent<sup>14</sup> before taking the appropriate NCEES written examination. Notably, the standards for application to take the certification test and the test itself are not set by the state or federal governments, but by an autonomous organization, the National Council of Examiners for Engineering and Surveying, commonly known as the *NCEES* (American Society of Civil Engineers, 2011). It is the NCEES, a professional organization that is empowered by each of the 50 United States, which in turn grants the state-recognized license to certify engineering plans and facilities in the name of those states.

Although in Anglo-American history, trades and trade organizations seeking professional recognition have mounted campaigns to achieve that elevation and recognition of their occupation, the status of *profession* cannot be claimed by an organization or a set of practitioners, no matter how loudly or frequently they assert that claim. Instead, that recognition must be granted by the society and its derivative, the state, in which the profession operates (Barker, 1992; Hodson & Sullivan, 1995; Roos, 2001).

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<sup>14</sup> Or an additional 30 hours of coordinated graduate or upper level undergraduate courses in engineering, science, mathematics from an accredited engineering school, and professional practice topics, plus four, or in some cases, eight years of progressive engineering experience.

### Chapter 3: Personal Financial Planning and Profession, a Critical Evaluation

As established in Chapter 2, an occupation must meet certain defined minimal conditions and characteristics to be recognized societally as a profession in the Anglo-American socioeconomic model. Both the traditional *trait* approach and the more recent *power* approach have consistent valid points, but address the issue of *profession* narrowly. Combining the consistent characteristics of *trait* and *power* approaches within the societal structure revealed in neo-institutional economics provides a succinct set of minimum requirements for an occupation to become recognized as a valid professional institution. Larson (2013) provides the basic economic requirement that in order to become a recognized profession, the aspirant occupation must provide evidence that it, and only it, can meet a clearly defined, and critical or vital economic need, while Hodson and Sullivan (1995) succinctly and clearly summarize the necessary characteristics that either must be apparent or must be developed for a profession to be recognized. Thus, the minimum conditions and characteristics of a profession are:

1. *A critical or vital need for the institution and its agent-practitioners must be societally recognized.* The need must be one not adequately addressed by existing professions or trades.
2. *Abstract, specialized knowledge:* An academically reviewed and accepted, *rigorously developed scientific theory and a deep, esoteric body of knowledge* addressing the unmet need must be created and conveyed to prospective members by the academic profession. University undergraduate and advanced degrees, based on the academically accepted *theory* upon which the aspirant profession's service is founded, must exist, be certified by the professional association (institution), and be mandated as a minimum prerequisite for professional entry

candidacy.

3. *Autonomy: A self-governing and self-policing institutional organization must exist, which sets and enforces minimum standards for all commercial and public relationships of its members.* The professional organization sets mandatory minimum standards, entry requirements, and disciplinary procedures and actions implementing the developed theory and knowledge base and a mandatory code of ethics establishing fiduciary responsibility and actions in all client relationships at all times.
4. *Authority: The profession and its governing organization or organizations must be recognized and delegated monopolistic rights by the states in which it offers its services.* A state board composed at least in part of established members of the profession must exist, exercising governmental delegation authority to recognized members of the profession. Other occupations, including professional occupations, must agree to recognize the peer status of the new profession and in its recognized areas of knowledge, subordinate themselves to it.
5. *Altruism: The profession and its members must be bound by a code of ethics stating that in all relationships with clients/patients, the professional must act in a manner that places the good of the public and client ahead of that of the professional.* Perhaps the most critical characteristic dividing the well-paid, technical expert or salesperson from a member of a *profession* is the consistent and universal adherence to a fiduciary, altruistic code of ethics rooted at the *institutional* level. Profession is a full-time occupation and so must be the ethical standard of the professional. Professionals deal with complex specialized skills

unfamiliar to the public. It is a critical test of professionalism that in order to justify a monopoly over practice, that fact must not be used for selfish advantage (Freidson, 2001).

An exploration of the current status of personal financial planning in light of these five criteria follows.

### **1. A Critical or Vital Need Must be Societally Recognized**

Personal financial planning combined with fiduciary investment advice and management has the potential to fill a critical need defined by North's institutional model. The collapse in communication costs concurrent with the late twentieth and early twenty-first centuries oversaturated individuals and families with conflicting and often inaccurate or misleading information concerning investment and risk management solutions. Even the promise of a federal government sponsored minimal pension in the form of Social Security payments is widely disbelieved by a large portion of the American population (iOMe Challenge, 2014).

This avalanche of information cascaded into their lives just as the employer-provided defined benefit pension plan and health care coverage was declining. The American worker and family have had had an unprecedented burden of investment and financial responsibility shifted to their shoulders, but in all but a very few cases did and do not have the education or the experience base to evaluate or effectively use the information to make responsible and effective choices (Cohen, 1996).

The middle-income working family or individual, living above subsistence but not considered wealthy, is economically the segment of the population that once depended on the largess of corporate or government-defined benefit retirement funds, managed by highly qualified and carefully regulated professional investment managers. Classic and neoclassic

economists have historically referred to this segment of society as *the middle class*, but more recently the term *mass affluent* has emerged and may be more appropriate for this analysis. The typical definition of *mass affluent*, at least in the banking industry, includes those who have liquid investable wealth levels between \$100,000 and \$1,000,000 (Mass Affluent Banking, 2007).

The middle market occupied by the mass affluent has a different set of needs from those economically above and below them. For those whose wealth is greater than the mass affluent, cash flow management consists of controlling high-dollar luxury expenditures. For the mass affluent, however, the crux of financial and investment management is whether or not they will have sufficient income to live comfortably without being forced into compensated labor in the years they had assumed would constitute *retirement*. The mass affluent have sufficient wealth to live comfortably on a combination of Social Security and investment-generated income, but to do so effectively must actively manage a series of critical issues. The list of critical issues includes but is not limited to cash flow management, optimization of Social Security or state retiree equivalents, life insurance to support a surviving spouse and possibly children, and higher education funding planning. Their need for estate planning is not to avoid estate taxes so much as to provide control and income for family survivors (Cohen, 1996; Jennings and Reichenstein, 2008).

For more wealthy families and individuals, separate specialists and specialist firms manage these critical issues, but the combined fees of those specialists puts them out of the reach of the mass affluent. For those of high wealth, it is more common to see the use of a *single-family office*. The single-family office firm commonly manages virtually *all* financial issues for a family or individual of high net worth, from credit card management, paying bills, and balancing

bank accounts, to selecting, managing, and utilizing legal, accounting, and investment firms. Single-family offices originated at the end of the nineteenth and beginning of the twentieth centuries, commonly incorporated as trusts, and limited their services to a single, exceptionally wealthy, multigenerational family. In the in the late twentieth and early twenty-first century, the *multifamily office firm* emerged, often in an effort to reduce costs for the original single-family office and turn what was for the originating family an expense, into a profit center. In the early years of the twenty-first century, multifamily offices typically required at least \$20 million of invested net worth per family, but by 2013, as multifamily offices multiplied to over 4,000 entities in the United States, it became common for them to serve families with as little as \$5 million of invested assets. Single-family and multifamily offices commonly have a multidisciplinary approach with one or more highly qualified investment managers, one or more CPAs, and one or more attorneys as prime advisers, as well as a set of highly trained service staff oriented on supporting the high-net-worth families in what is known as a *conciierge service*. The fees for that level of service typically run from \$50,000 to over \$1 million per year, a prohibitive cost for the mass affluent (Steinberg & Greene, 2013; Elliott, 2010).

Those of the mass affluent need a common coordinator and adviser to help define and guide them to the specific services needed, from attorneys or legal firms, to tax preparers, insurance companies, and investment managers (Altfest, 2004). The traditional commissioned-sales trade of insurance agents and securities sales offices, which were often self-described as *financial planners* in the 1980s and 1990s, and the fee-for-service local tax preparer and lawyer have long served the lower end of the economic scale, but by the end of the twentieth century they were facing increasing competition from do-it-yourself (DIY) sites available through the Internet. A combination of collapsing communication costs engendered by the Internet and the

growing mass affluent market caused traditional specialist occupations – including accountants, attorneys, securities salespersons (now more commonly describing themselves as *financial advisors*), and insurance agents – to expand their service offerings and identities to include “financial planning,” in an attempt to capture market share and increase revenues by providing a commercially profitable service perceived as a need by the mass affluent (Faunce, 2010; Anonymous, 2009; Cohen, 1996; Black Jr., Ciccotello, & Skipper, 2002; Arman, 2006).

The socioeconomic need exists and is being addressed with an institutional economic response, which is evolving – as neo-institutional theory describes – as different communities and organizational identities are expanding to fill it (Davis & North, 1971; North, 1981; 1990; 2005). The literature and data evidence suggest that there are three broad identities competing in this gap: *financial advisors*, expanding up the economic spectrum from the securities and insurance sales occupations; *wealth managers*, an evolved expansion of the *family office* institution moving down the economic spectrum and, at least potentially, *financial planners*, who in some cases already occupy the middle ground (Private Pursuits; Wealth Management, 2012). It is an open question whether personal financial planners will emerge as a recognized institution and profession, interposing itself between the two existing institutional models, or whether the corporate, commercial, sales model employed by financial advisors or a variant of the fiduciary, family wealth management model will dominate the personal financial planning service for the mass-affluent, leaving only two competing institutions on the field.

## **2. Abstract, Specialized, Esoteric Knowledge**

Personal financial planning lacks a rigorously tested and scientifically sound body of knowledge and common practices.

**Lack of a scientific theory of personal financial planning.** Once an unfilled need is

established, the solution to that need in a modern, complex society must come from new academic knowledge. According to Cogan (1955), that new knowledge takes on the form of *theory*: “A profession is a vocation whose practice is founded upon an understanding of the theoretical structure of some department of learning or science, and upon the abilities accompanying such understanding” (p. 107). The word *science* may be traced to the Latin *scientia*, which simply means *knowledge* (Science [Etymology<13<sup>th</sup> century], 2014). If, indeed, “Knowledge becomes power, and profession stands as the human link between the two” (Freidson 1986, ix), then without science, a craft defined, reviewed, and approved under the professional authority of academics, there is no profession. It is, therefore, important to consider whether personal financial planning has produced scientific knowledge, particularly knowledge that has resulted in some coherent theory.

In the social sciences the knowledge-production process is different from the physical or biological sciences in that the studies are often accomplished through surveys and long-term observations using large sample sizes. These observational survey studies compare a large sample of individuals who have been exposed to a specific treatment or event with another large sample who have not, and then the resulting data is controlled for other variables that may have affected the individual subjects within the sampled population. Once a peer-reviewed survey of this kind is published, other researchers attempt to duplicate the results. If the results of the initial survey can be duplicated and the academic peer review concurs, then a theory is posited and examined by academic scholars in the field or fields involved. If a theory of financial planning exists, it would very likely fall under both the fields of Sociology and Institutional Economics (Rapley & Hansen, 2006; Donovan & Hoover, 2014;).

The development of a generally accepted *theory* requires a diligent application of the



*scientific method* (Ingvarsson & Hanley, 2005). The steps of the scientific method may be adapted to social scientific thinking as follows:

1. Identify the variable to be studied.
2. Form a hypothesis about the relation of one variable to another or to a situation.
3. Perform a reality test whereby changes in the variables are measured to see if the hypothesized relationship is evidenced.
4. Compare the measured relationship between the variables with the original hypothesis and develop generalizations about the findings.
5. Provide suggestions about the theoretical significance of the findings, factors involved in the test that may have distorted the results, and other hypotheses that the inquiry brings to mind (Donovan & Hoover, 2014, p. 30).

Following these steps, a theory of personal financial planning might start with the identification of financial planning services, including the six steps identified in ISO 22222:2005 and the CFP Board Standards, as the variable to be studied. A researcher might then hypothesize that families or individuals who have received comprehensive financial planning advice and execution assistance over a long period of time would be more successful in achieving their financial objectives than those who self-planned or those who did not create or receive a financial plan at all. The next step would be to conduct a scientifically valid survey of a statistically significant number of families and individuals to determine their actual and/or perceived progress toward their long-term financial goals. After controlling for other known variables, the results should indicate not only the efficacy of commercially provided personal financial planning advice and assistance in comparison with self (DIY) planning and the absence of a financial plan, but should be able to place an average value on the acquisition and long-term assistance in the execution of

a comprehensive, personal financial plan.

A critical element in this scientific methodology is that elements in the six-step process in ISO 22222:2005 or the CFP Board's six step process could be evaluated to determine if more or less emphasis should be placed on each of them. Elements could be identified that might be missing from the process, and others that might have had little or no long-term contribution to the socioeconomic well being of the subjects. Such a methodology is vital, not only to validate a methodology, but to adjust the initial hypothesis to create the value to its subjects that was originally envisioned (Donovan & Hoover, 2014).

The logical first place to look for a professional theory, or at the very least its in-progress development is in the leading journal of any occupation – in this case, *The Journal of Financial Planning*. This periodical journal is published by The Financial Planning Association® (FPA®), an organization that describes itself as “the principal professional organization for CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals, educators, financial services providers, and students who seek advancement in a growing, dynamic profession” (onefpa.org, 2014). A search of the *Journal* archives for the term “financial planning theory” is revealing. Using variations on the search term reveals that in over 30 years of publication, there appear to be only a few articles addressing financial planning theory, and they all acknowledge the absence of a theory, question the ability of financial planning to rise to a recognized profession without an academically recognized theory, and call for steps to be taken to develop such a theory.

In the November 2011 issue, the *Journal's* editor, Lance Ritchlin, noted that articles and essays have been published at least since 1990 calling for the development of a basic financial planning theory, but that over two decades later “the financial planning *industry* remains in search of an underlying theory” (Ritchlin, 2011 [italics added]). It is significant that in the

articles referenced by Ritchlin and cited in the Buie & Yeske (2011) article discussed below, there are a series of clear statements articulating that without a well-explored and academically established underlying theory, financial planning is not a profession. Consequently, with the acknowledgement that no such theory exists, the writers consistently describe financial planning as an *industry*, not as a *profession*. In this context, the Oxford English Dictionary defines “industry” as: “A particular form or branch of productive labor; a *trade or manufacture*” (Industry [n. Def.4.a.], 2014).

In that same issue is an article by Elissa Buie, CFP®, and Dave Yeske, D.B.A., CFP® (2011), in which the authors quote Wagner (1990) as saying, “CFP® practitioners have an urgent need to develop basic financial planning theory. Without underlying buttressing theory, how can we practice as a profession?” (Buie & Yeske, 2011, p. 38). The article goes on to cite Warschauer (2002) as noting that universities offering degrees in financial planning include no lessons on financial planning theory in their curriculum, as well as Black Jr.’s (2002) admonition, “The [Personal Financial Planning] field has evolved largely devoid of a theoretical foundation,” and “we know of no respected profession without academic underpinnings and respected academic standing” (Black, Jr. et al, 2002, p. 2). It further quotes Wagner (2007) as writing, “For the most part, we have not closely examined our presuppositions, often settling for bland aphorisms rather than critically examining our assumptions” (Wagner, 2007, p. 38). Buie and Yeske (2011) make a passionate argument for the development of a theory of financial planning and for CFP® practitioners to become more serious about increasing their knowledge base and becoming more compliant with the standards established by the CFP Board. They bemoan the absence of widespread attempts to advance or even comply with the knowledge base that exists (p. 38-39, 42-43).

A search of the *Financial Services Review*, the *Journal of Financial Services Professionals*, and the *Journal of Financial Counseling and Planning*, the only other peer-reviewed journals that routinely carry academic studies related to personal financial planning, revealed several articles addressing subjects and studies that might lead to a theory; however, notable in its absence from those articles is any evaluation of whether the investor was in any way better off financially in either the short or long-term as a result of the financial planning services provided by the financial advisor.

Hanna & Lindamood (2010) published a study entitled *Quantifying the Economic Benefits of Personal Financial Planning*, which was financed by the CFP Board. In this study, the authors present evidence from the triennial survey of Consumer Finances that about 25% of households in 2007 used advice from a financial planner. Notably, the study did not indicate whether the households were better off financially as a result of using that advice, but only that some of the respondents *felt* better about their current financial situation. However, the authors maintain that the survey was critically flawed: respondents were not offered the response *financial advisor*, but were limited only to *financial planner*, which in context appeared to suggest a person who offered financial advice rather than a person who provided a financial plan or claimed *financial planner* as an occupational identity (sec. 3.1). For this reason, the authors conclude that the results of the survey were not truly indicative of any value provided by the use of a financial planner when compared with those who did not use a financial planner.

Another article entitled *The Value of Financial Advisors to Retirees* (Salter, Harness, & Chatterjee, 2011) reported similar findings, noting that retirees who have undertaken planning activities with the assistance of a financial advisor *feel* more confident about their finances, but omitting any findings on whether the retirees experienced any measurable improvement in their

financial situation. Similarly, Warschauer and Sciglimpaglia (2012) attempted to validate the hypothesis that consumers who have a personal financial plan *feel* more confident about their current finances and investments in their paper, *The Economic Benefits of Personal Financial Planning: An Empirical Analysis*. However, these authors discovered that few member of the public were educated about or interested in financial planning. In fact, they found that only 5.9% of the surveyed population had an up-to-date comprehensive financial plan from any source, while 66.8% managed their own finances and the remainder received some advice from a commercial financial services source. The authors argued that this finding reflected an unexpected disinterest among the public:

For many years planners accepted as an article of faith the idea that properly done financial planning was worth well more than its cost. Given the small proportion of the public that have and use financial plans, one may conclude that this feeling is not widely held among the public (p. 208).

Again, notable in its absence from the study was any attempt to determine if a person or family who had received the service of comprehensive financial planning years or decades earlier were better off in any measurable way, or even if they were currently following the recommendations contained in the financial plan they had received.

While the study itself was limited, one finding from the survey stands out as very significant for this thesis: when asked who they most trusted to create a financial plan for them, participants responded with only single digit percentages for the established occupations such as stock brokers, insurance agents, attorneys, and accountants, but 44% indicated that a CFP® practitioner would be their first choice (Warschauer & Sciglimpaglia, 2012). This public recognition suggests that an opportunity exists for personal financial planning to grow into a

recognized institutional profession. Alternatively, the process outlined by the CFP Board of Standards and found in ISO 22222:2005 could become a task set performed by a set of institutional agents from an existing institutionalized occupation or occupations. The focus on practice and procedure standards with a de-emphasis on theory by the CFP Board in its Practice Standards appears to support the task-oriented result rather than the development of a profession (Certified Financial Planner Board of Standards, Inc., 2013a).

The *Journal of Financial Service Professionals* published an article that was useful as a measure of the attitude and status within the financial services community on the subject of developing a theory of financial planning. Cordell, Grange, & Langdon (2012), in their article entitled *Useful Financial Planning Concepts from Academic Research*, summarized the attitudes of “financial services professionals” toward academic research and theory, writing, “Academic research is sometimes obtuse or inapplicable to the real world of financial services. Further, because of the nature of the primary market for academic journals, even relevant and helpful articles are inaccessible to most financial service professionals” (p. 82). Cordell, Grange, & Langdon go on to suggest that the methodologies used by most “financial advisors” are sometimes questionable in light of relatively recent academic research.

There are two issues addressed in the Cordell, Grange, and Langdon article that are particularly relevant to this study. First, in light of the necessity for a member of a recognized profession to have mastered a deep and esoteric subject area, their reported attitude that “financial services professionals” consider academic research in their practice area to be “obtuse or inapplicable” implies that “financial advisors” are not academically prepared or willing to accept peer-reviewed academic research as a valid source of information. Second, the presumably objective researchers described the “financial service professionals” providing the

comprehensive financial plans as “financial advisors” rather than *financial planners*.

The field’s members also recognize the lack of supporting research and theory in financial planning. In October of 2002, at the Financial Planning Association’s Annual Success Forum, the FPA Chairman, Guy Cumbie, addressed more than 3,000 financial planners as he lamented the “embarrassingly gaping hole” (Klein & Miller-Segarra, 2002, p. 3) represented by the absence of a theory in financial planning’s body of knowledge. Furthermore, while surveying and observing financial planners in their practices for her dissertation, Cohen (1996) noted that, “in practice much of financial planning was selling products regardless of the customer input...” (p.38).

The striking issue in this series of articles and the Cohen dissertation, is that despite well-published calls over a period of decades for the development of a theory of financial planning, no published theory or process apparently intended to lead to a theory could be found, and as recently as 2011, serious academic writers and the editor of the *Journal of Financial Planning* lament that absence. Financial planning has been a practice for over four decades, and the CFP Board of Standards definition of the service has been in use for a decade and a half. Despite this, it appears that no survey has been undertaken to compare the financial results and satisfaction of consumers who received comprehensive financial planning advice over a period time with those of a control group who did not.

While no such survey could be found, information in a CFP Board press release suggests that at least one similar but very limited survey was conducted, though its negative results were not published in a manner that would relate it to personal financial planning (Certified Financial Planner Board of Standards, Inc., 2012; Aite Group, 2012b). A more detailed analysis of the press release and the survey are included later in this chapter.

**Lack of meaningful education qualification.** Another consistent finding running through the various published efforts to define the current criteria for recognition of a profession is that the agents of a profession must have mastered a deep, esoteric body of knowledge, a characteristic that appears to be missing from most of those who identify as financial planners or offer financial planning as a service. In today's established professions, evidence of that mastery is normally a bachelor's degree or its equivalent *in the professional field*, and/or the completion of postgraduate study equivalent to a master's degree, again *in the field of the profession*, from a college or university accredited by the governing professional organization.

In contrast, to call oneself a personal financial planner requires no credentials or licensing of any kind. Most persons referring to themselves as financial planners are regulated in some form, but are required to have no knowledge base other than that related to the sales process for financial products (United States Government Accounting Office, 2011). In addition to passing its certification examination, the CFP Board requires its candidates to hold at least a bachelor's degree, but there is no subject requirement for that degree. While the American Institute of Certified Public Accountants, itself the national professional organization for the profession of accountancy, requires a degree in its professional subject area (accountancy), and additionally issues a certification credential in financial planning, the other financial planning credential-issuing agencies, such as the American College, do not have any education requirements other than to take and pass the online or correspondence courses for which the organization charges (American College, 2014). This training is unlikely to meet the standards for professionals. Indeed, Richard Wagner, JD, CFP® (2007), a thought leader in concepts of financial planning, complained in his article *Financial Planning As A Learned Profession* that financial planners – and more specifically CFP® financial planners – are not “learned professionals,” and, “Though



our traditional CFP craft has served us well in our formative years, it behooves us to understand that our craft mastery can be done by computers and commoditized” (p. 38). While there is evidence that more institutions of higher learning are offering bachelors and master’s degrees in financial planning, a survey presented at a CFP Board educational conference in 2013 reportedly found that the majority are not sitting for the CFP® exam and do not consider financial planning to be a prospective career choice (Schoeff Jr., 2013).

If these certifications are not sufficient for professional status, what exactly is their purpose? To answer this question, it may be useful to look at the CFP Board’s certification process as a case study. The CFP Board of Standards is the largest, best funded, and most articulate advocate for the status of personal financial planning as a profession and is responsible for the often-repeated assertion that the only true personal financial planner is a Certified Financial Planner. The publications of the CFP Board provide in many ways the most visible image of what financial planning has become and is at the time of this study.

As the leading designation provider in terms of total numbers, it would be reasonable to expect that certification by the Board denotes a mastery of knowledge akin to that of other professions. While, based on the subject matter tested, and the relatively low pass rate (Certified Financial Planner Board of Standards, 2014f), it is probably safe to assume that persons who receive CFP Board certification are far more qualified to provide financial advice to members of the public than a person without either a specialized education in the field or Board certification, the only published surveys found during this survey seem to only validate that financial advisors who hold the CFP® marks have higher incomes than those who do not. One example of this can be seen on the CFP Board website (Certified Financial Planner Board of Standards, Inc., 2011). First, its recruitment brochure *Great Careers Begin with CFP® Certification* (2011) lists as its

first bulleted point of reasons to become a CFP® “certificant”, “High income potential” (Certified Financial Planner Board of Standards, 2011). The Board sponsored a study by the Aite Group in 2012 and issued a press release entitled *Adding Expertise to a Financial Advisor’s Practice: Measuring the Contributions of CFP® Professionals*, noting the following findings from the study:

- 20% of all financial advisors held the CFP® designation
- 15% of financial firm clients were more satisfied when working with a CFP® practitioner (although the release did not address what less-satisfied comparison group was used in this finding)
- Sole CFP® professionals generate between 40 and 100 percent more revenue than other non-CFP financial providers
- Financial firms that have a CFP® on staff generate 30% more in revenue.<sup>15</sup>

The press release went on to note that financial advisors certified as CFP® “professionals” managed 45% of their clients’ assets in accounts where they charged an *assets under*

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<sup>15</sup> It is noteworthy that the superior revenues reported by the survey for “financial firms” that employ “CFP® professionals” were apparently in the form of increased income for brokerage firms, rather than for investment advisory firms. Brokerage firms, by definition, are in the business of selling securities, while investment advisory firms are paid for rendering objective investment advice (Financial Industry National Regulatory Agency, 2014). The press release also states that representatives using the CFP® designation had the majority of their “assets under management” in non-fee, i.e. commission-based, accounts. Thus the study appears to evidence that commission-based salespersons with the CFP® designation generate more corporate and personal revenue from their customer base than those who do not have the designation.

*management* (AUM) fee. Thus, it may be reasonably assumed that 55% of the assets on which the CFP® marks holder was generating “revenues” were sales-commission based accounts.

It is noteworthy for the purpose of this study that the press release issued by the CFP Board, perhaps the lead organization in referring to *financial planning* as an independent *profession* referred to the persons and the occupational group in which 20% of the members held the CFP® marks as *financial advisors* rather than *financial planners*. Even in the release’s title, the occupation to which the CFP® marks are purported to have added value is called “*a Financial Advisor’s Practice*” (Certified Financial Planner Board of Standards, Inc., 2012; Aite Group, 2012a). Here again the CFP Board, despite its literally hundreds of claims for the practice of financial planning itself to be a *profession* proclaims repeatedly that financial planning is a *service* offered and practiced by members of the *financial advisor* and other occupations rather than suggesting that the cited practitioners were financial planners.

Apart from the press release by the CFP Board, the survey itself also focused on financial advisors. For example, the Aite Group, instead of surveying members of the public to determine their reported levels of satisfaction, posed their questions to 515 U.S. *financial advisors*; furthermore, the advisor performance data from which they presumably drew the conclusion that 15% of financial firm clients were more satisfied after working with CFP® practitioners was taken from the executives of “a top 50 U.S. financial services [broker] firm” (Aite Group, 2012a, p. 1). The release actually concludes, therefore, that the response from executives of a *single brokerage* (sales) firm “validates that CFP® certification enhances the scope and quality of advisors’ services, leading to higher client satisfaction” (Aite Group, 2012a, p. 1). The CFP Board press release on the Aite Group survey goes on to disclose that the survey data was largely drawn from top executives at “top 20 *brokerage* firms” (Certified Financial Planner Board of

Standards, Inc., 2012, p. 1).

The character of “financial planning” revealed in the 2012 CFP Board press release appears to be consistent with Altfest’s (2004) observation that financial planning’s initial efforts were “heavily product sales oriented” (p. 53) and Williams’ (1983) report that the majority of financial planners are in the sales business, warning, “These people are merchants” (p. 42). Cohen (1996), in a landmark dissertation generated from direct observation and interviews with financial planners, described their efforts in this way: “Their work mainly was product sales” (p. 46).

Only one other survey-based, peer-reviewed publication could be found that relates to the meaningfulness of professional certification in financial planning. In his dissertation based on a survey of financial planners across the United States, Arman (2006) hypothesized that “possession of the CFP, ChFC, or PFS designation is positively associated with increased practitioner income” (p. 63).

By recruiting financial planners from the Financial Planning Association and the Society of Financial Services Professionals (SFSP), as well as his own list, Arman received 1,486 usable responses to his survey, resulting in a relatively large, representative survey of financial planners in the United States. Arman reported that the mean annual income of holders of any of the three professional designations was significantly higher than those without one of the top three designations, and that those reporting that they actively practiced formal financial planning had higher earnings than designees who did not. After a detailed and rigorous analysis of the survey results, Arman concluded that “financial planning practitioners are well served by pursuing the CFP designation” because it “allows them to earn more than any other category of planner across most variable and demographic profiles” (p. 155).

Furthermore, the College for Financial Planning (CFFP) has conducted surveys since 1996 on the value of their educational programs, which support the trend of other surveys. In the CFFP's *2014 Survey of Trends in the Financial Planning Industry*, the CFFP reports that *advisors* who obtained the CFP® credential reported an average increase in earnings of 20% after receiving it, with the average income rising from \$109,966 to \$132,347 (College for Financial Planning, 2014).

The aforementioned work by the Aite Group (2012), Warschauer & Sciglimpaglia (2012), and Arman (2006), reveals that the majority of revenues and client assets in accounts on which CFP® certificants are the brokerage-firm's designated representative, are in sales commission-based accounts and products, implying that CFP® holders generate higher *sales* commissions for their employing firms. The published surveys also suggest that there is indeed a developing theory of personal financial planning; however, the repeatedly confirmed hypothesis leading to that theory is that *personal financial planning results in higher personal income for its practitioners and higher revenues for their employers*. The findings support Arman's (2006) hypothesis that "CFP's increased abilities to provide comprehensive planning allow for greater influence over client financial matters, thus increasing client retention and [planner] earnings" (Arman, 2006, p. 155). Given that there is no apparent scientific study or survey suggesting that any long-term economic benefit accrues to the recipient of the personal financial planning service; and, furthermore, given that financial planning credentials have only been shown to benefit practitioners and not their clients, the evidence appears to indicate that the practice of comprehensive financial planning is more an effective asset-gathering and financial advisor-revenue enhancing methodology than a nascent profession.

### **3. Autonomy**

Both institutional economic theory and theories of professions hold that professions and their institutions must be self-governing, self-patrolling, and self-policing. Financial planning, as a field, is none of these. Arman (2006) sums up the status of financial planning both for those who refer to themselves as financial planners and for the practice of financial planning by those who use other titles:

Comprehensive financial planning can currently be practiced in the United States without degrees, licenses, or even certifications. That this situation exists is a reflection of a number of factors. First, the relative newness of the profession has precluded a consensus among practitioners regarding expected core competencies. Second, the hundreds of thousands of individuals currently offering financial advising services have come to the profession from widely disparate backgrounds, thus creating often-contentious debates regarding who is qualified to offer such services. Third, there are several regulatory and government agencies extant that currently regulate aspects and broad swaths of financial services, thus creating a perception among many practitioners that further regulation is unnecessary or redundant. (p. 2)

This observation reflects a state of near-chaos in the field of financial planning, revealing the effect of a nearly total absence of self-governance.

The field of financial planning has a weak form of self-policing that is at best one-step removed from total absence of the characteristic. The first requirement for self-policing by a profession is to restrict entry or use of title by persons who have not met the professional organization's minimum standards. Each of the 131 or more titles (Financial Industry National Regulatory Authority, 2014a) issued by the many organizations claiming to provide financial planning credentials has some minimum standard; however, they range from simple payments to

the organization to the extensive classwork and series of tests required to obtain the ChFC designation (American College, 2014).

The GAO report to Congress on regulation of financial planners notes that there is no governing body—private or governmental—that polices financial planners, but notes that most but not all financial planners are under some form of governmental regulatory supervision, albeit narrowly (Government Accounting Office, 2011). The American College has a limited self-disciplinary procedure for those to whom it grants any of its several financial planning credentials, but notably provides the link to file a complaint with its registrar under the title, “Complaints Against Financial Advisors” rather than *financial planners* (American College, 2014). The CFP Board of Standards has a disciplinary board and procedure; however, a survey of their list of revocations indicates that the Board only terminates a certificant’s right to use the CFP® marks for misconduct after a governmental regulatory agency or court of law has acted against the marks holder or after the marks holder has failed to pay dues, maintain continuing education requirements<sup>16</sup>, or respond to the board (Certified Financial Planner Board of Standards, Inc., 2014d). A search of research databases and organization websites revealed no information about self-policing by other financial planning organizations.

The CFP Board also appears to be relatively lenient in the application of its disciplinary procedures. For example, only twenty-three persons out of 66,000 had their use of the CFP® marks revoked by the Board in the five years ending in 2012 (CFP Disciplinary Statistics,

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<sup>16</sup> The requirement by some of the certification organizations to maintain and report continuing education requirements does constitute a very limited form of self-governance, but as it applies only to the set of financial planner practitioners who hold a particular designation, and not to all those who refer to themselves as *financial planners* it fails to meet the standards of a profession.

2014e). Furthermore, in 2014, *Financial Planning* magazine revealed that at least 486 holders of CFP® marks were using the “Find a CFP® practitioner” search application on the CFP Board’s website to falsely claim “fee-only” status, a violation of the CFP Board’s Code of Ethics. While the CFP Board took the application down from the site and later reopened it after removing all claims by practitioners of “fee-only” status, it apparently took no action against the certificants who had falsely made the claim. The Board’s CEO, Kevin Keller was quoted in the article as stating, “We do investigate all of the cases that come to our attention. Our policy is that there is no audit or examination function. Upon receipt of a specific complaint, we would open an investigation,” adding that no one has lodged a formal complaint (Marsh, 2014a; 2014b; Certified Financial Planner Board of Standards, 2013a). Mr. Keller effectively states that the CFP board, arguably the most demanding of the many organizations offering financial planning credentials, has a policy of no self-patrolling. Further, his defense of inaction in the face of known ethical violations by the holders of his organization’s credentials strongly suggests that the Board’s self-policing policy is extremely weak and limited solely to action following a formal complaint.

In fact, the CFP Board states that its Code of Ethics is “aspirational” – i.e. not mandatory – and limits its practice standards to only those actions that constitute the actual act of personal financial planning, thereby excluding other transactions, advice, and interactions between the CFP® practitioner and a member of the public (Certified Financial Planner Board of Standards, Inc., 2013a). While there is and has been a debate for decades about the degree and effectiveness with which accepted professions enforce their codes of ethics, no generally accepted profession could sustain the claim to *profession* if it openly declared that ethical behavior by its members was “aspirational,” i.e. *optional*.



The situation is made no better by internal characterizations that limit the scope of financial planners and their activities governed by the CFP Board, as epitomized by the Board's own *Practice Standards and Rules of Conduct*, solidified in 2002. That document's introduction states,

The universe of activities engaged in by a certificant is diverse, and a certificant may perform all, some, or none of the typical services provided by financial planning professionals. Some Rules may not be applicable to a certificant's specific activity. As a result, when considering the Rules of Conduct, the certificant must determine whether a specific Rule is applicable to those services. (Certified Financial Planner Board of Standards, Inc., 2014b, p. 5).

The introduction ends with, "the Rules are not designed to be a basis for legal liability" (Certified Financial Planner Board of Standards, Inc., 2014b, p. 6). This contrasts with the consistent positions of the various states as they have statutorily defined the minimum ethical standards required of a professional in their jurisdiction, and therefore provided for that "legal liability" which the CFP Board has publically disclaimed for its practitioners.

It is clear from both the written definition of when and how *Practice Standards*, and *Code of Ethics* apply that the practice of personal financial planning as defined by the CFP Board is definitively limited to a set of tasks that do not constitute a full-time occupation. Certainly, professional occupations do perform tasks, processes, and render services, but neither the process nor the services define the profession. In the case of financial planning, processes and services are provided by workers in several different occupations, principally found in the group defined by the Bureau of Labor Statistics (BLS) as "Personal Financial Advisors." The largest

component of that occupational group falls under the title “Securities, commodities, and financial services sales agents” (Bureau of Labor Statistics, 2014b).

In summary, there appears to be no established definition for the occupation of *personal financial planner*, and entry requirements for the practice of personal financial planning are also nonexistent.

In fact, FINRA warns that a person calling him or herself a financial planner may have no qualifications at all. Although the CFP Board mandates that in order to be licensed to use the CFP® mark, an applicant must pay a fee and pass a Board exam, CPA holders and lawyers are entitled to waive specialized education.

Furthermore, the concept of self-policing is present but weak in the leading financial planning certification organizations. The CFP Board is the most prominent in its self-policing activities, but appears to be passive and to avoid decertification unless a governmental body, court, or governmentally-delegated organization such as FINRA has taken prior punitive action to revoke or suspend a certificant’s registration or sales license.

#### **4. Authority**

A professional, often within legal boundaries, is the final authority on how and to what standard professional actions will be accomplished. An agent of a professional institution has both the right and the duty to say “no” to a client and prescribe a different form of treatment. The professional’s higher calling is to the standards of the profession, and while the client’s end results shape the actions taken by the professional, those actions are under the control of the professional, and not the client. This authority is granted to and mandated in each state by statute law. Generally-accepted professions have some form of state board approval and licensing procedure that both allows their practice within that state and mandates their authority in their

respective fields, usually in a manner set or influenced by their respective national professional organizations (Freidson, 1986; Larson, 2013). This standard applies both in the United Kingdom, where professional practice and/or protected titles are licensed by a Crown-chartered organization in Scotland, Wales, England, or Northern Ireland (United Kingdom National Contact Point, 2014), and in the United States, where professions are granted some degree of protected identity and practice status in most states, and where national professional organizations generally set the standards for entry and practice (Larson, 2013; Freidson, 1986; Zhou, 1993; Hodson & Sullivan, 1995).

States typically create licensing boards to control entry into a professional occupation and to enforce standards of practice among licensed practitioners. This practice is particularly prevalent when there is an asymmetry of information between the professional and the public, a result of the deep and esoteric body of knowledge necessary for professional recognition. State governments not only license professionals, but also provide critical statutory restrictions against the practice of a licensed profession by a non-licensed person. During the early wave of licensing in the nineteenth century and continuing into the twentieth, licensing took on two forms. The first was recognition of the asymmetry of knowledge that prevented a consumer from knowing a charlatan from a legitimate practitioner and was a de facto recognition of an occupation's rise to the status of profession. The second form of licensing was for circumstances in which an unqualified practitioner could injure or damage a person or property, e.g. barbers, beauticians, electricians, and plumbers. The characteristic difference between the licensed trades and professional recognition was the level of education required and the degree to which the state delegated the licensing requirement standards to members of the licensed occupation and their respective member organizations (Law & Kim, 2005; Kleiner, 2000).

As Arman (2006) notes, many financial planners resist state licensing or control because they believe that there are sufficient licensing statutes already in existence. These existing statutes take two different forms. First, financial planners who are employed by a broker-dealer to sell securities are required to be licensed by FINRA and in each state in which they sell or offer to sell securities, and if selling insurance, must be licensed as an insurance agent in the state of sale. Second, if the financial planner provides investment advice on securities separate from sales activities, either solely or in addition to sales commissions, he or she is required to be or be employed by a registered investment adviser, and in most states, to be registered with the state in which the advice is offered and/or the U.S. Securities and Exchange Commission (Financial Industry National Regulatory Authority, 2014; North American Securities Administrators Association, 2014). In both sets of laws, licensing requires that the agent have an understanding of the regulatory restrictions imposed by the law, but not of any form of deep, esoteric knowledge. No pre-licensing education is required, even so much as a high school diploma (Grace & Phillips, 2007; National Association of Insurance Commissioners, 2012). In many states, holders of the CFP® and other designations have been granted a waiver from the necessity to pass the Uniform State Securities Examination administered by FINRA as well as an exemption from continuing education requirements for insurance licenses in some states (Certified Financial Planner Board of Standards, Inc., 2014a).

The existing state licensing and regulation of financial planning and financial planners are designed solely to ensure that practitioners have at least a minimal awareness of the legal and regulatory requirements and penalties. They do not mandate the mastery of any body of knowledge or subject matter associated with providing personal financial planning services to the

public. Therefore, such licensing and regulation does not amount to the recognition and delegation of rights that would confer the status of profession upon financial planning.

### 5. Altruism

The foundation of a profession is in the deep, esoteric knowledge base and theory that meets a critical or vital need in society. That asymmetric base of knowledge results in a series of characteristics that separate the professional from his or her clients, one of which is that professions have a broad use of terminology with which their clients are unfamiliar, or more simply, a separate professional language. The criticality of the deep knowledge and the unique language are part of what leads to the autonomy and power of the professions. This autonomy, esoteric knowledge, criticality of service, and power can easily lead to public distrust and gives the professional the ability to defraud his or her clients or patients. In order to overcome that rational distrust, a profession must clearly and publically proclaim and demonstrate a high level of *altruism* (Hodson & Sullivan, 1995) or as other sociologists have put it, *disinterestedness* (Larson, 2013). This trust in the probity and ethicality of professional practitioners is and must be a “prerequisite for being trusted to control the terms of work without taking advantage of such control” (Freidson, 1970, p. 360). Thus, for an occupation to rise to the level of a societally recognized *profession*, it must convince the society in which it is to be recognized that it has risen beyond the *caveat emptor* (buyer beware), adversarial economic relationship associated with a *trade*.

The studies sponsored by the CFP Board cited above, as well as the history of personal financial planning that has culminated in its national identity organization, the Financial Planning Association, assuming the role of being funded for undisclosed sums and sponsored by financial product vendors, define the practice of financial planning as primarily a more effective means of

financial product sales. With the exception of the National Association of Personal Financial Advisers, the certifying and advocacy organizations associated with the practice of personal financial planning not only allow, but encourage and celebrate the value of financial planning in enriching both the financial advisor offering the service and the firm employing the financial advisor; however, in that celebration little or nothing is shown of any additional value offered to the recipients of that service (Veres 2012; Certified Financial Planner Board of Standards, 2012; Shidler, 2014).

*Altruism* is, at its base, a commitment to open, fair, and factual action, advice and disclosure, and carries the implied value of a sincere effort to avoid misleading, incomplete, and false statements or suggestions. As referenced above, the CFP Board published a press release in 2012, referencing a study done by the Aite Group entitled, “New Research: CFP® Certification Provides Value to Clients, Firms & Financial Professionals”. At the foot of that press release was a footnote; “Aite Group also conducted a December 2011 survey of more than 1,000 U.S. investors with a margin of error of +/- 3 percentage points at the 95 percent confidence level” (Certified Financial Planner Board of Standards, 2012). A search of the CFP Board website and press releases failed to reveal any evidence of the high-confidence level survey that was referenced in the 2012 release in such a manner as to lend credibility to the “New Research...” survey. However, on the Aite website there was a press release of the only reported survey by the Aite Group conducted in December 2011, and which carried that set of confidence data (Aite Group, 2012b). A search for the actual study in published form revealed that the CFP Board sponsored Aite December 2011 study found that Gen-X investors were repelled by the high costs and commissions charged by financial advisors at commercial institutions and were increasingly turning to do-it-yourself websites in reaction (Scivantage, 2012). The violation of the hallmark of

*altruism* here as the CFP Board first attempted to attach a high level of statistical confidence claim to what was, upon investigation, a clearly unbalanced and potentially misleading survey, by citing the confidence levels of a different survey that was unfavorable to the press release's claim, is particularly noteworthy in light of the Board's repeated proclamations of high ethical standards and a fiduciary duty. That the self-proclaimed enforcer of standards for financial planning behavior would publish such a press release and maintain it on its web site as a proclamation of the value of its trademark is a strong indication that altruism is weak or even non-existent in the leading financial planning advocacy organization.

Beginning in the 1980s, and repeatedly in the decades that followed, the CFP Board and the International Association for Financial Planning (IAFP) and its successor, the Financial Planning Association, made the choice to opt for greater financial remuneration rather than orient on altruism in the form of a mandated fiduciary standard and code of ethics for their certificants and members. In doing so, they knowingly or unknowingly, rejected a critical hallmark of profession, and as Altfest (2004) found, assumed the characteristics of a *retail trade* albeit without the prerequisite qualification of first becoming a recognized *occupation*.

While there have been calls for altruism and objective disinterestedness from the founding of the ICFP to the establishment of NAPFA and onward to the present day, despite a focused and careful search, with the exception of NAPFA, no evidence of actual altruism in financial planning advocacy organizations were found in published literature during the process of research for this study. In its place is a highly visible focus on a claim that the financial planner and his or her employer are the prime financial beneficiaries of certification.

## Chapter 4: Conclusions and Recommendations

### Conclusions

This review of academic and other published literature indicates that personal financial planning has none of the characteristics associated with a profession as outlined in the disciplines of sociology and institutional economics.

The potential transformation of *personal financial planners* from salespeople into professionals appears to have been thwarted by a combination of two separate forces. First, the term *financial advisor* came into increasing use as the financial product sales agents attempted to distance itself from negative press coverage related to the title *financial planner* (Cohen, 1996). Second, the CFP Board of Standards – ironically, financial planning’s chief cheerleader – may have both discouraged the use of *financial planner* as an occupational identity and inadvertently given energy to the new identity of *financial advisor* as it forbade those to whom it granted limited use of the CFP® and CERTIFIED FINANCIAL PLANNER™ marks to identify themselves as a “Certified Financial Planner” or “a CFP,” purportedly to protect the Board’s rights to exclusive rights to the use of the trademark (Certified Financial Planner Board of Standards, Inc., 2014c). By 2012, the CFP Board itself was referring to those using its marks as “financial advisors” (Certified Financial Planner Board of Standards, Inc., 2012).

Other organizations have followed suit. Even the group most dedicated to creating a professional identity separate from that of corporate product sales agents, the National Association of Professional Financial Advisers (NAPFA), chose to identify themselves not as *financial planners*, but as “*Financial Advisers*,” while also claiming professional status in their organizational name (Brill, 1994; Cohen, 1996, p. 48; Brandon & Welch, 2009, p. 43). The Financial Planning Association, too, uses such language on its website: “If you are thinking about retirement, contact a qualified financial advisor from FPA today” (Branning, 2012).



These examples of evolving nomenclature point to a critical issue. Because of the CFP Board's ban on the practitioner identifying him or herself as a financial planner after being awarded its certification marks, financial planning is left to become a task performed by other allowable occupational identities.

In conclusion, personal financial planning does not meet any of the six qualities in the list provided by Sciulli (2007) of "the most notable (and often cited) current effort to define professions" (p.121). It also fails to meet the "four hallmarks of profession" stated by Hodson and Sullivan (1995) and the six "commonplaces" cited by Gardner & Schulman (2005). Freidson (1970; 1986), Cogan (1955), Larson (2013), Black Jr. (2002) and Hodson & Sullivan (1995) insist that profession must be based on *theory*. Dishearteningly, though, Ritchlin (2011), Buie & Yeske (2011), Wagner (1990), Warschauer (2002), and Black Jr. (2002) all lament the absence of any underlying theory of personal financial planning.

Furthermore, the lack of published surveys intended to measure the long-term consumer benefit of personal financial planning is striking; instead, emphasis has been placed on studying the value of credentialing to the practitioner. As a result, the developing theory of financial planning currently tells us no more than that financial advisors with the CFP® credential are significantly more highly compensated than other financial advisors and generate higher sales revenues for securities sales firms (Arman, 2006; CFP Board, 2011; 2012; College for Financial Planning, 2014). The paucity of research more relevant to an actual working theory only underscores financial planning's unjustified claim to professional status.

### **Recommendations**

Possibly because of the CFP Board's high profile marketing campaign combined with an increase in the number of CFP® certificants who are eschewing the financial product-sales

business model in favor of the fiduciary adviser model, the CFP® marks have risen to a level of acceptance not seen since the media celebration of the advent of the *financial planner* in the early 1980s (Brandon & Welch, 2009; Warschauer & Sciglimpaglia, 2012; Cohen, 1996). The widespread acceptance of the CFP® credential – and the unification of NAPFA, the American College, and the FPA behind it – provides an opportunity for personal financial planning to become an accepted occupation and move on toward becoming a recognized profession.

The following outline of a possible route for financial planning to rise from a service to a profession is based on the historical route now established professions like accountancy, engineering, and architecture have followed in that pursuit. Based on those historical examples, two initial steps must be taken to transform the concept and practice of personal financial planning. First, a thorough research review should be conducted to establish a clear definition of *personal financial planner*. In order for the Bureau of Labor Statistics to include *personal financial planner* as an occupation, a clear definition delineating how a personal financial planner is different from financial advisors is needed. This could, in turn, lay the foundation for further recognition in the future. The definition could be created and enforced on, for example, those holding the CFP® designation, and afterwards submitted to the BLS as a separate profession. That definition would have a much greater impact if an independent academic institution investigated and evaluated the new behavior and published it in a peer-reviewed publication.

Second, academic research must be conducted to define and determine the measurable benefits and value of long-term, financial planner-provided planning for consumers. To start, the financial planning advocate organizations such as the FPA, the CFP Board of Standards, and NAPFA should state a clear hypothesis and then offer a grant for an independent, academic

institution to conduct and publish a peer-reviewed survey comparing families and individuals who have been investing for an extended period of time assisted by a financial planner using a comprehensive financial plan as defined by ISO 22222:2005 or the CFP Board's *Standards* with those who have not used the services of a financial planner.

From these two sets of actions, presuming positive results were found, the financial planning advocate organizations could offer academic grants for the development of a comprehensive theory of personal financial planning to explain why the assistance of a financial planner created a better outcome. Presuming such a theory could be developed, it might demonstrate that financial plans and advice offered by *non-certified* financial planners and financial advisors had a record of causing measurable harm to the public.

The second phase of the evolution toward professionalization is to gain both state recognition and protection of the *financial planner* title. The financial planning advocate organizations should approach one or more of the larger states' legislatures with their newly established survey and theory information. If a clear demonstration could be made that unlicensed financial planners were a threat to the public, that a minimum education and certification levels were required to create a financial plan for members of the public, and that a properly created financial plan created needed value, it is reasonable that states would consider restricting the term *financial planner* or even *financial advisor* to persons who met minimum professional standards. By initiating the regulatory effort, the financial planning advocates, possibly under the umbrella of the Financial Planning Coalition, would be able to influence the state regulatory regime so as to create state-level professional boards and/or associations that would take their guidance from the national CFP Board, much as the state boards of accountancy take their lead from the AICPA.

This second phase would involve the CFP Board of Standards surrendering the CFP® trademark in return for the type of statutory protection currently enjoyed by CPA holders and the accounting profession as well as professional engineers and architects. With the change of title protection from that of a commercial trademark to state statutory restriction, a properly credentialed and licensed person could call him or herself a “certified financial planner” or “a CFP” in much the same manner as a CPA, attorney, or professional engineer, thereby creating the personal professional identity associated with recognized professions.

A possible, although possibly less desirable alternative to the internally driven professionalization outlined above, would be the imposition of standards by the federal government, as was done in the United Kingdom. While the final outcome is still undetermined, observers have begun assessing the Retail Distribution Review in the United Kingdom, where their equivalent of the SEC imposed a minimum education and certification standard on all financial advisors while at the same time banning financial product commissions. The result appears to have been an approximate 25% reduction in the number of practicing financial advisors, and a centralization of authority to the Financial Conduct Authority, a quasi-governmental organization with a mandate not unlike that of FINRA in the United States. With these changes came a national excise tax on financial advisor income, an increased regulatory burden, and in the first year alone, a decline in the number of actively practicing financial advisors and in the income of those who remain (Austin, 2014; Murphy, 2014).

The combination of increasing dependence on individual investments and financial risk management by many Americans and the simultaneously increasing complexity of investment products have created a critical demand for financial and investment advice. The financial planning community has the opportunity to address that demand by turning from product sales

and adopting professional standards, or it faces the threat of either being placed under strict governmental control or being permanently relegated to an optional task performed by other occupations.

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