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The correlations of professionalization and compensation sources with the ethical development of personal investment planners

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Abstract

Recent controversies concerning personal financial planners, and investment planners in particular, have centered around two issues: competence and ethics. This paper has focused on the ethical development of a sample of investment planners in connection with the correlative roles of professionalization and compensation sources. Certified Financial Planner designees were found to manifest higher ethical development scores than non-Certified Financial Planner designees. Fee-based planners manifested no significantly different ethical development scores than their counterparts. Other demographic variables were also studied. © 1999 Elsevier Science Inc. All rights reserved.

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1. Introduction

There has been much controversy in connection with both the competence and the ethics of personal financial planners. This study examined the ethical development of personal financial planners who specialize in investments — “investment planners,” a group, which has been the subject of particular ethical controversy.

Except for examining legal and regulatory complaints, no gauge of ethical behavior currently exists. Any examination of legal and regulatory complaints and rulings would be

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limited to a small and unrepresentative subset of the relevant population. Measuring ethical development is a viable alternative and its measurement is important because ethical development has been found to be linked to behavior (Rest & Narvaez, 1994). "Ethical development" refers to a psychometric taxonomy defined by Rest (1979). Numerous studies of professionals' ethical development (alternatively labeled "moral judgement") have been conducted in connection with accounting, dentistry, journalism, teaching, veterinary medicine, and other professions (Armstrong, 1984; Arnold & Ponemon, 1987, 1991; Loeb, 1971; McCarthy, 1993; Ponemon, 1990; Ponemon & Gabhart, 1990, 1993; Self et al., 1993; Self et al., 1994; Westbrook, 1994). This researcher has found no ethical development studies in connection with investment planners.

2. The investment planning industry

The SEC, under the "Securities Exchange Act of 1934," also allows for the creation of self-regulatory organizations (SROs), which are industry groups that govern its own members. All stock exchanges, as well as the National Association of Securities Dealers (NASD), may be characterized as SROs. The Over-the-Counter (OTC) stock market is governed by the NASD. Further, virtually every investment banking firm in the United States is a member of the NASD and is thus subject to its regulation (Johnson & McLaughlin, 1997). Representatives of these firms are usually referred to as "brokers" and the brokers may also position themselves as personal financial planners. The domain of the broker provides the second means by which an investment planner may choose to enter the field for compensation (the first being the RIA/IAR route noted above).

Requirements for attaining either broker/representative or RIA status differ. In order to become a RIA, one must merely register (i.e., file an application and pay a fee) with the SEC or a state securities commission, indicate his personal history, including any criminal records. No competency examination is required. The RIA must also maintain books and records and is, of course, subject to the law.

In contrast, representatives must pass a NASD-administered examination in order to broker securities (NASD, 1998, Membership and Registration Rules, Rule #1030). The most common NASD examination is the "General Securities Representative" (Series 7) examination, which allows registered representatives/brokers to effect transactions in all securities instruments; other examinations, including the IAR examination, tend to be less comprehensive.

In addition to passing a written examination, the broker must also be affiliated for at least four months with a NASD member broker/dealer firm. The stock exchanges, as SROs, also may confer broker status limited to activities with the conferring exchange. It is noted, however, that the NASD administers the various "Series" examinations and it is these registration examinations which are most common and universally accepted. Normally, brokers promoting fee-based investment management services will also acquire the IAR status, while independent advisers (i.e., those not affiliated with a broker/dealer firm) will obtain the RIA status. Both brokers and IARs are considered "representatives" operationally in this study. Further, all IARs in this study also bore general securities representative (Series 7) status.

The status of the investment planner also affects the compensation method he/she may demand. An RIA will charge a client a fee for investment advisory services rendered, whereas a broker/representative will earn a commission for a transactional service, often but not always as the result of having rendered some investment advice. The RIA may not execute the advice on behalf of the client (although he may direct its execution), whereas the broker is compensated based on execution only. IARs, in turn, promote a service, whereby a RIA is recommended and the IAR will share in the fees generated from this multiple relationship.

Some investment planners offer clients the choice of either a fee or a commission compensation structure. Other planners may use a “commission versus fee offset” arrangement, whereby any transactional commissions paid, may serve to reduce fees charged for services. Thus, for example, if the client is to be charged 1% of the $1 million dollars he/she has invested with the investment planner/adviser, and the account has also generated $1,000 in commissions, the fees will be reduced from $10,000 (1% of $1 million) to $9,000. Investment planners who provide either choice are deemed “combination” planners in this study. Combination planners must be both brokers and registered investment advisers. Partly in response to controversy concerning compensation arrangement, a membership organization has been formed called the National Association of Personal Financial Advisers (NAPFA), whose membership consists only of fee-only planners.

Incidentally and in general, the rendering of generic investment advice, which is incidental to the performance of other professional services (i.e., including tax accounting, estate law, and more remote activities as teaching and journalism), does not fall under the rubric of compensable investment advice. These other professionals may be exempted from the legal and regulatory requirements mentioned. Thus, a teacher who, in the classroom, suggests that one invest in stocks for the long term is not acting in the capacity of investment advisor, but as a teacher. The law is usually interpreted as meaning that if you do not get paid directly for the specific activity of investment advising and do not present yourself as such, you are not acting as an investment adviser. Such other professionals have not been considered in this study.

Apart from differences in compensation source, some financial planners carry professional designations, including particularly the Certified Financial Planner (CFP) mark. Attainment of the CFP designation requires the completion of a rigorous two-year study program, including a professional ethics component. The candidate must affirm fealty to the “Code of Ethics and Professional Responsibility,” which is promulgated by the CFP Board of Standards. Additional requisites include passing an examination, having related work experience, and acquiring ongoing educational credits. The CFP designation is the leading credential for investment planners.

Indeed, the International Association for Financial Planning (IAFP) has recently announced that it is officially recommending that all financial planners (i.e., including investment specialists) obtain the CFP designation (Robaton, 1997). Large firms are also encouraging employees to obtain the CFP mark in order to “foster a public image of acting in the best interests of the consumer” (Hansard, 1999, p. 3).

3. Psychology of ethical development

This study's dependent variable is a known measure of one's level of ethical development, which is called the "Principled Score" or "P-score" (Rest, 1979). According to the psychology of ethical development, varying rationales may be employed in arriving at ethical decisions, which may be articulated in terms of a progressive, multi-stage, developmental taxonomy (Kohlberg, 1984; Rest, 1979). In this taxonomy, the individual is said to first emphasize his egoistic need for self-preservation, disregarding any other considerations. Developing further, he/she may then start paying heed to the demands of other individuals and groups, eventually acquiring more socially determined thinking. In the end, some reach the highest stages of ethical development, which represent "principled" thinking and which are akin conceptually to philosophic teleology and deontology.

"Teleology" refers to the assessment of the net benefits to be derived from an action in comparison to the demerits of the means employed in attaining the ends. It is thus a kind of ethical cost/benefit analysis and is often alternately referred to as "Consequentialism" or "Utilitarianism." Utilitarianism is usually associated with Jeremy Bentham and John Stuart Mills, English philosophers who lived in the eighteenth and nineteenth centuries.

"Deontology" is more intuitive, requiring the absolute adherence to the "Golden Rule" (i.e., respecting other people as ends in themselves and not ever as means to achieve some end). Certain actions are judged to always be either "right" or "wrong" independent of any results produced. Deontology is associated with Immanuel Kant, a Prussian philosopher who lived in the eighteenth century.

Individuals whose thinking is dominated by teleological and deontological processes are considered most highly developed morally. Ethical development will differ among individuals and may indicate not only how people think, but how they may actually respond to particular ethical dilemmas. "Principled" individuals (i.e., those with the highest ethical development scores) are more . . .

> . . . likely to behave consistently with their own principle-based decisions—they'll carry through and do what they think is right. . . . less likely to cheat . . . more likely to help someone in need, and more likely to blow the whistle on misconduct. (Trevino & Nelson, 1995, p. 92)

Ethical development may be assessed by examination. The Moral Judgment Interview (MJI), the medium by which Kohlberg (1981) assessed one's ethical development, is intended to estimate the highest ethical development stage a subject has achieved. Rest (1979), using Kohlberg's taxonomy, created the Defining Issues Test (DIT) to gauge ethical development or moral judgement. The DIT is a written instrument, which is scored by algorithm, as compared to the MJI, which uses the interview. The DIT measures ethical development on a continuous scale, indicating the extent to which one thinks in terms of the highest ethical principles. As the DIT measures cognitive skills, it may be more useful than Kohlberg's MJI in the study of the relationship between moral reasoning and actual behavior.

Moreover, ". . . there is a persistent statistically significant relationship" (Rest & Narvaez, 1994, p. 22) between ethical development and behavior. The cognitive-behavioral link is established through Rest's "Four-Component Model" (Rest & Narvaez, 1994, pp. 22–25), which first requires that the subject recognize that a moral dilemma is present, while also recognizing that there may be other influences on behavior.

Rest's four components of morality are ethical sensitivity, reasoning, motivation, and character (Rest & Narvaez, 1994). It is the second component (known as "Component II") that we are concerned with herein—the development of ethical reasoning or judgment; the second component informs ethical choices. Thus, ethical development scores (i.e., Rest's "P-score") assess the framework which people bring to solving moral problems; the higher one's P-score, the more the subject arrives at moral judgments in a manner akin to ethical philosophers (i.e., in terms of teleology and deontology).

The DIT is an instrument, which has been widely used both over many years and across the study of numerous professions.

> The DIT has been used extensively since the 1970s. Currently, the number of studies using the DIT totals over 1,000; the total of subjects taking the DIT numbers in the hundreds of thousands; the DIT has been used in over 40 countries; and the published literature on the test is extensive, with about 150 new studies each year. (Rest & Narvaez, 1994, p. 13)

The DIT combines all of the following elements, which make its use appropriate for this study. The DIT...

1. Is indicative of a taxonomy of ethical development, particularly as it may be used to reflect latter stage thinking, which is most appropriate for a study of adult-professionals;
2. Addresses a cognitive process, which is purely moral in content;
3. Is a written test, which is easily administered by mail-survey; and
4. Has been tested extensively over time.

4. Methodology

This study examined self-proclaimed "financial planners" who were also brokers and/or registered investment advisers; such parties are termed "investment planners" in this study. Membership in the International Association for Financial Planning (IAFP) qualified the practitioner as a self-proclaimed financial planner and served as this study's sample frame.

In order to effect the study, a stratified, random sample was drawn from a list of domestic members of the IAFP. The IAFP, whose membership (at the time the sample was drawn) exceeded 16,000 professionals, is the largest financial planning organization and has a substantial investment planner constituency. The sample was later demarcated both by the subjects' attainment of the CFP designation—or lack thereof—and by the means by which the investment planner chose to be compensated.

A mail survey containing both Rest's (short-form of the) Defining Issues Test (DIT) and a researcher-designed demographic questionnaire was implemented. The mailing consisted

Table 1
Descriptive P-Score Data

	N	Mean	Standard Deviation
CFP Designee	99	38.01	16.98
Non-CFP	71	33.62	13.69
Total	170		
Fee-only	29	38.51	16.78
Comm. & Combin.	141	35.70	15.61
Total	170		
Commissions	30	36.45	15.83
Fee-only & Comb.	140	36.12	15.85
Total	170		
H_3: Low Educ. And No Prof. Cred.	66	32.83	14.99
H_3: Hi Educ. Or Advc'd Prof. Cred.	104	38.30	15.99
Total	170		
H_4: "Low Age" (Under 40)	34	36.57	16.26
H_4: "Mid Age" (40–59)	113	36.46	14.74
H_4: "Late Age" (60+)	22	34.70	20.59
Total	169		
H_5: New in Profession (0–4.9 Yrs.)	36	38.98	15.34
H_5: Experienced (5–10 Yrs.)	34	39.31	16.85
H_5: Established (10+ Yrs.)	99	33.94	15.40
Total	169		
H_6: Males	140	35.33	16.03
H_6: Females	30	40.11	14.26
Total	170		

of 424 questionnaires; however only 196 or 46.2% of the questionnaires were returned with usable responses, suggesting the possibility of non-response bias. (Respondents who neither indicated that they were "representatives" nor registered investment advisers were classified as non-usable responses; such respondents were minimal.) P-scores were calculated for all usable responses.

Next, a test of non-response bias was conducted. The difference between the P-score means of the early and late respondent groups was minimal (Table 1), especially when viewed relative to their standard deviations. A two-tailed *t*-test for significance of independent means was conducted; the results failed to attain statistical significance, $t\ (194) = .27$, $p > .05$. Given this test, it would appear that there is no significant non-response bias in this study. This conclusion is based on Oppenheim's hypothesis (Oppenheim, 1966), which asserts that non-respondents' data will more closely resemble late respondents' than earlier ones. Further, the relative proportions of each of the variables in this study versus the sample frame were similar.

5. Hypotheses concerning primary variables

This study focused on two key investment planning issues: compensation sources and professionalization (i.e., attainment of the CFP designation). These issues served as the study's "primary" independent variables. Compensation sources may be problematic in the investment planner-client relationship. A commonly reported abuse is "churning" or excessive turnover of holdings for the sole purpose of generating commissions to enrich the financial planner (Loss & Seligman, 1989; Spiro & Schroeder, 1995). A similar abuse is the excessive trading brokers effect near months' ends in order to generate sufficient compensation for the entire month (Brown, 1996). Another is unsuitable investment recommendations, particularly where high-commission, proprietary investment products are concerned.

The compensation matter is not generally thought to be as problematic in the fee-based and combination venues because of the absence or modification of transactional compensation. Fee-only planners are thought to have less motivation than commission-based planners for putting their own interests ahead of their clients'; this is because the fee-based planner does not have the temptation to engage in unnecessary trading in order to generate income for himself. The fee-only planner is paid for his advice only, thereby reducing or eliminating conflicts of interest and moral hazard. An investment planner who registers relatively highly on an ethical development scale, may therefore gravitate to media of compensation that present less moral dilemmas. (It is noted that the moral development literature does not yet address this hypothesis.)

This is not to say that the fee-based or combination investment planner is free from conflicts of interest or ethical dilemmas. By charging ongoing money management fees, the financial planner can create an annuity, or perpetual income stream for him/herself, which may be more costly in the long-run for the client. This compares to the alternative of having effected a one-time commissionable transaction that nonetheless satisfies all the client's present financial objectives. "For too many planners, assets under management means assets under a fee-collection system" (Abram, 1996, p. 83).

The financial planning industry has been marked by the increasing professionalization of its ranks since the advent of the Certified Financial Planner (CFP) designation in 1973. Throughout history, "profession" has been defined as an occupation, which requires training and specialized study. In addition to examinations and other criteria that go along with admission to a professional society's ranks, including CFP licensure, come numerous behavioral and ethical expectations. There is "the belief and social expectation that the possession of special knowledge and skills carries with it the mandate for its moral and ethical use" (Self & Baldwin, 1994, p. 147). Professionals who are holders of certificates must both abide by the relevant codes of ethics and adhere to professional standards (King & Chironna, 1989, p. 29). Indeed, an important reason that a professional organization is formed is to create a specialized code of ethics that circumscribes the profession and its community (Durkheim, 1958).

The CFP designation is also well recognized. In a study concerning the recognition of professional designations, the Certified Public Accountant (CPA) designation was most recognized, while the Certified Financial Planner (CFP) and Certified Life Underwriter

(CLU) were next most recognized (Nelson & Nelson, 1997). CFP recognition was also noted as being in ascendance, while CLU recognition appeared to be in decline.

This study, however, was not concerned with public accounting (CPA) or insurance (CLU) respectively, but with investment planning, by and large the domain of CFP designees. Although no studies were found in connection with the CLU designation, a plethora of studies have been done concerning the moral judgement of CPAs (Armstrong, 1984; Arnold & Ponemon, 1987, 1991; Jones & Ponemon, 1993; Loeb, 1971; Ponemon, 1990; Ponemon & Gabhart, 1990, 1993; Shaub, 1994). However, the moral dilemmas faced by the CPA, who until very recently did not offer commission products, are different than those facing the investment planner, who is also faced with the vagaries of the financial markets and clients' perceptions thereof.

Given the absence to date of research concerning the ethical development of investment planners, prior research in connection with accountants is of some interest. In a paper concerning accounting students who studied the American Institute of Certified Public Accountant's (AICPA) ethical code, Fulmer and Cargile (1987) found that the students had greater awareness of ethical issues as compared with those who had not studied the code. Moreover, Sellers (1979) found that such students perceived ethical issues in a manner similar to that indicated in the AICPA ethical code, whereas students who had not studied the code had a more dissimilar perception.

Similarly, the CFP certification examination requires that the CFP candidate be knowledgeable of the CFP Board of Standards' Code of Ethics and Professional Responsibility. Once being awarded the CFP designation, the CFP licensee must subscribe to the code and take continuing education courses in CFP ethics for a minimum of two credit hours (i.e., four classroom hours) every two years in order to maintain the CFP status.

In summary, the respective correlations of compensation sources and professionalization with the investment planner's ethical development constituted the focus of this research. It is expected that fee-based planners and Certified Financial Planner designees will score higher on Rest's moral judgement scale (i.e., P-score) than both commission-based and combination planners, and non-CFP practitioners. The following articulates these directional hypotheses in operational form:

> **H1:** The Certified Financial Planner licensee will manifest higher ethical development than the non-licensee, as defined by Rest's ethical development score, which is called "P-score."
>
> **H2:** The fee-based investment planner will manifest higher ethical development than both the combination and commission-based planners respectively.

6. Hypotheses concerning demographic variables

This study also examined certain demographic correlates in connection with the investment planner's ethical development/moral judgement: age, educational achievement, career tenure, and gender. Due to the fact that the DIT is a cognitive-developmental instrument, it stands to reason that age and education should be examined. This is based on the supposition that people change over time and that the change is as predicted by developmental theory—with increased age and education come higher moral judgment scores (Rest & Narvaez, 1994).

Rest found that many studies "reveal that increased education is, in fact, generally associated with higher levels of moral judgment" (Rest & Narvaez, 1994, p. 28). Moreover, years of formal education were found to be a far greater predictor of ethical reasoning and moral development than chronological age per se. "The evidence at hand suggests that adults in general do not show much advance beyond that accounted for by their level of education" (Rest, 1979, p. 113). Although Rest's taxonomy represents a chronological hierarchy,

> . . . "better" does not mean that a higher stage subject has more raw intelligence (brain power) . . . higher stages are said to be better conceptual tools for making sense out of the world and deriving guides for decision making. (Rest & Narvaez, 1994, p. 16)

Education levels were indicated by academic degrees and/or professional designations—or lack thereof. Professional credentials are often acquired after first having completed some formal education, usually a bachelor's degree. Such credentials include certifications such as the CFP mark, CPA (Certified Public Accountant), ChFC (Chartered Financial Consultant), and the like. Indeed, one may not sit for the CFP certification examination if he has not completed a bachelor's degree. Accordingly, "advanced educational achievement," herein, was taken to mean the attainment of either advanced academic degrees (i.e., beyond a bachelors degree) and/or relevant professional designations—other than the CFP designation.

Career tenure may be positively correlated with higher ethical development levels, as may be expected in a developmental schema. While the literature does not address this variable in connection with investment planners, another rationale for this hypothesis was that over the course of an investment planner's long career, production pressures wane thereby reducing ethical conflicts.

Gilligan (1977) made the point that gender plays an important role in ethical thinking. In response, Rest asserted that both genders may nevertheless be compared on the same developmental scale, i.e., using the DIT's P-score (Rest, 1986). In a study of veterinary medicine, it was found that "females are no less, and probably more, effective in the use of *justice* (emphasis added) for resolving moral conflicts" (Self & Olivarez, 1993, p. 70). ("Justice" and "justice reasoning" are terms, which are used in connection with the higher stage philosophic/psychological principles employed in the Kohlberg/Rest taxonomy.) A study utilizing numerous versions of Kohlberg's test found that males and females earned equivalent scores (Walker, 1984). Additionally, a meta-analysis of 56 gender studies covering the use of the DIT (Thoma, 1984 as cited in Rest, 1986) indicated that women scored higher than males.

It has also been found that both female accounting students and female CPAs had higher DIT scores than males at equivalent levels (Shaub, 1989, 1994). Female accounting students were found to be less tolerant of academic dishonesty and less involved in related misconduct than their male counterparts (Ameen et al., 1996). Elsewhere, it has been found that "at every educational level, females scored slightly higher than males" (Rest & Narvaez, 1994, p. 14).

Table 2
Statistical Summary Relative to Hypotheses Tests

	P-Score Finding	Mean Difference of P-Score	t or F	p
H_1	CFP > Non-CFP	4.40	$t = 1.8$	.037*
H_2	Fee-only > Comm. & Combination	2.81	$t = .87$	.19
H_2	Fee-only & Combo < Commiss-only	.33	$t = .10$	.46
H_2	Fee-only > Commission-only	2.06	$t = .49$	.31
H_3	Adv Ed. &/or Prof. Cred. > Low Ed. &/or No Prof. Cred.	5.47	$t = 2.2$	.014*
H_4	Low Age > Mid Age > Late Age	.11 and 1.76	$F = .12$	.89
H_5	New < Experienced > Established	.33 and 5.37	$F = 2.26$	.11
H_5	Experienced > Established	5.37	$t = 1.7$	.04*
H_5	New & Experienced > Established	5.20	$t = 2.13$	.035* (2-tailed)
H_6	Female > Male	4.78	$t = 1.5$	.067

$*p < .05$

The following directional hypotheses were formulated in connection with the aforementioned demographic variables:

> **H3:** Investment planners with higher educational achievement, including either academic degrees and/or (non-CFP) advanced professional credentials, will manifest higher ethical development than those with less educational achievement.
>
> **H4:** Ethical development increases with age.
>
> **H5:** Ethical development increases with career tenure.
>
> **H6:** Women score higher in ethical development than men.

7. Results and analysis

One-tailed t-tests for significance of independent means were conducted for each of the hypotheses. In connection with H1, and as expected, the mean P-score is statistically significantly greater for the CFP designee cohort than for the non-designee cohort (Table 2).

In connection with H2, three subgroups were involved: commission-only, fee-only, and combination planners. Accordingly, a one-way analysis of variance (ANOVA) was conducted initially in order to ascertain whether the groups differed significantly among themselves regarding the dependent variable, the P-score. The results indicate no statistical significance, $F(169) = .42$, $p > .05$. Follow-up t-tests were also conducted in order to describe and more closely examine the subgroups.

First, the fee-based planner was compared with the group consisting of both the commission-only and combination planners. Although the mean P-Score for the fee-based planner exceeded that for the commission and combination group (Table 1) as postulated, the results failed to attain statistical significance (Table 2).

Second, the commission-only planner was compared with the group consisting of both the fee-only and combination planners. The commission-only planner, having greater incentive to generate commissions or to churn the client's account, is thus presumed to be exposed to greater "moral hazard" (Milgrom & Roberts, 1997) and may be expected to manifest lower ethical development than the other cohorts. Those who manifest higher ethical development may be repelled by the ethical conflict inherent in the commission business and therefore choose a fee-only or combination compensation arrangement. Surprisingly, the P-score was slightly lower for the group consisting of both the fee-only and the combination (i.e., fee plus commission) financial planners, in comparison to the cohort consisting of commission-only brokers (Table 1). The results, however, failed to attain statistical significance (Table 2).

This odd finding may, in part, be explained by the ambiguity of the "combination planner" variable. In the field, some "combination" planners may offer clients the choice of one or another compensation schedule, i.e. the choice of a fee- or commission-based relationship. Other combination planners may offer a "commission versus fee offset" plan, whereby the client's fees will be reduced to the extent that the planner derived commission revenues from transactions, which were executed on the client's behalf. Some may offer either choice. This study did not attempt to elicit such fine differences among the combination planner subgroup. Further, it is not clear how the various combination planner subgroups may compare, in terms of ethical development, to the fee-only and commission-only planners.

Therefore, a third test was conducted, in which the fee-only planners were compared to the commission-only planner cohort. As expected, the fee-only planner manifested a higher P-Score than the commission-only planner (Table 1); however, the results failed to attain statistical significance (Table 2).

In order to test the H3, subjects were divided into two subgroups: 1. Those having neither any professional credentials (e.g., CPA, CFP, CLU, etc.), nor an academic degree beyond the bachelors and 2. Those having either a masters degree or more, or an advanced professional credential—other than the CFP designation. As expected, those with either advanced professional credentials and/or higher formal education reflected greater mean P-scores (Table 1). The results were statistically significant, (Table 2).

Further, among all CFP designees surveyed, 68% had "high educational achievement." The association between CFP Professionalization and Educational Achievement was statistically significant, χ^2 (1, N = 170) = 4.217, p = .040. A comparison of the combination of the Professionalization and Educational Achievement variables revealed that investment planners who both carry the CFP designation and had high Educational Achievement exhibited the highest mean P-Scores - as compared to other possible combinations (Table 3).

As P-scores were hypothesized as increasing with both Professionalization and Educational Achievement as separate variables, a one-tailed test for differences in independent means of CFP designees alone based on Educational Achievement was conducted; the mean P-Score difference attained statistical significance, (Table 3). A test for statistical significance of non-CFP designees based on Educational Achievement failed to attain statistical significance.

In order to test the H4, subjects were grouped into three cohorts: (1) "Low age," i.e., those who are under 40; (2) "Mid age," i.e., those between 40 and 59; and (3) "Late age," i.e., those 60 and over. Contrary to expectation, the mean P-score declined as age increased. The

Table 3
Combined P-Score Statistics for Professionalization (CFP vs. non-CFP) and Educational Achievement

		n	Mean	Std. Dev.	Mean P-Score Ranking
CFP	High Ed. Ach.	67	40.00	16.62	1
	Low Ed. Ach.	32	33.85	17.23	3
Non-CFP	High Ed. Ach.	37	35.23	14.52	2
	Low Ed. Ach.	34	31.86	12.72	4

Comparison of P-Score Data for CFP Designees Based on Educational Achievement

P-Score Finding	Mean Difference of P-Score	*t*	p
CFP	6.15	1.7	.046*

*$p < .05$

decline in mean P-score from low age to mid age was marginal (Table 1), while the decline was greater to late age. The results were not statistically significant (Table 2).

In order to test the H5, subjects were divided into three cohorts: (1) “New in profession,” i.e., those with less than 5 years’ experience; (2) “Experienced,” i.e. those with 5–10 years’ experience; and (3) “Established,” i.e., those with more than 10 years’ experience. As expected, the mean P-score increased somewhat from new to experienced (Table 1), while contrary to expectation, the mean declined markedly thereafter to established. However, the results were not statistically significant, (Table 2). A follow-up test did uncover a statistically significant difference between experienced planners and established planners (Table 2); again, this finding is contrary to the hypothesized direction.

The new and experienced cohorts were combined and compared to the established cohort. In combining the groups, the number of new and experienced subjects was closer in total quantity to the number of established subjects (Table 1). As the Career Tenure finding above had not been in the expected direction, a two-tailed test for differences of independent means was conducted; the mean difference in P-scores was found to be significant (Table 2).

A possible explanation for established planners’ manifesting lower P-scores is a “survivor effect” whereby planners with relatively higher moral reasoning abilities decide to leave the business after a time as a result of the disturbing and ever-present moral conflicts that are inherent in the practice of investment planning. Alternatively, the more ethical investment planner may simply fail in the business after a time.

In this connection and as indicated earlier, the CFP professional is perhaps closest characteristically to the CPA. Ponemon (1990) studied the ethical development of accountants and auditors. He found that junior level CPAs tended to acknowledge rules of conduct, while managers and partners (who, of course, have more career tenure) were more concerned about such pressing issues as litigation and their firm’s profits in connection with auditor role conflicts.

In connection with the H6, the mean P-score was greater for females than for males (Table 1), as expected. The finding, however, only approached statistical significance (Table 2). It is noted that there are only 30 women in this cell, therefore, the statistical power of this test is low.

On a final note, Armstrong (1984) found that the ethical development of accountants tended to be lower than for college students and the general population of college-educated adults. The mean P-scores for CPAs (37.6) in Armstrong's study and CFP licensees (38.01) in this study were similar. It appeared therefore that CFP designees also manifest lower ethical development than the general population.

8. Conclusions

This research implied that if an investor is primarily concerned about the ethics, in contrast to the competence, of a prospective investment planner, the client should look for certain characteristics in the planner. This client's ideal investment planner would be a CFP designee with a high level of education (i.e., he would have at least a master's degree and/or other professional credentials); he would also have less than ten years tenure as an investment planner and be female. Still, the investor should expect his investment planner to be lower in ethical development than the general, college-educated population. *Caveat Emptor*!

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