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*International Financial Management and Control*

Improving financial advisory services by using the Balanced  
Scorecard management control system

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## Chapter 1: Introduction

### 1.1 Background of the Study

The financial advisory industry is constantly changing (KPMG International, 2013; Ernst & Young LLP., 2015; PWC, 2012; Seetharaman, 2015), therefore, there are a number of challenges that will require the attention of advisers in order to provide clients with the best financial advice. As Financial Service organizations cannot avoid these challenges, they must therefore adapt by addressing the challenges and changes and aligning with effective approaches for improving their financial advisory services. Wealth management and advisory firms possess the great opportunity for profit and growth in the investment advisory industry (Aguilar, 2013; PWC, 2012 p.1, p.20). Also, assets under management raised to a record \$74 trillion in 2014. (Appendix B-1: Figure 1, 2,). However, only those firms that are able to best understand which changes are affecting the industry will succeed (PWC, 2012 p.1). Thus, they must improve their advisory processes to maximize their benefits.

Applicable research, via various white papers and journals have been made available by the leading financial firms including KPMG, E&Y and PWC to identify continuous changes and rising challenges in the financial advisory industry.

KPMG conducted interviews with more than 30 CEOs, from a range of investment management firms from Europe to discover which have the most impact on financial firms (KPMG International, 2013, p. 2). Ernst & Young wrote publications based on interviews with several CEOs and digital entrants to understand the innovations that the new digital entrants are offering, and to investigate how these firms are going to challenge the traditional wealth management industry and show how they can change the industry and what the traditional firms should do (Ernst & Young LLP, 2015, p.1).



Platinum Financial Services Limited is a member of the Business Class Group (BCG) which is a Hong Kong based holding company that consists of a number of specialist operating brands providing a comprehensive range of quality services across Eastern Europe and Asia. Thus, the company is the owner of a selection of companies and it has a multi-brand, multiple-speciality business model. The group divisions include Business Class Asia, Platinum Financial Services Limited, Lifestyle Brokers Limited, Lifestyle Insurance, Lifestyle Property, Lifestyle Property HK, REMAX Lifestyle Property, Liquide Marketing Communications, PFS International Consultants Co. LTD and Discretion Wealth Management. With offices in Hong Kong, Russia, China and Thailand the Business Class Group provides assistance to both private individuals and corporate businesses. Related organizational structure of BCG is shown in Appendix A-1. As Mark Kirkham, the CEO of BCG is stated in (International Adviser, 2013) “In fact, though, BCG isn’t a single business, but rather, a group structure comprised of individual businesses that just happen to share owners, top management, a website and other elements, including many clients”. BCG has assets under management of about \$90 million, managed by a staff of 70, of which around 44 are advisers (International Adviser, 2013).

Platinum offers a range of financial and investment products. Platinum is advising clients on mortgages, life insurance, and retirement planning and portfolio management (Platinum, 2016). The company is targeting mainly foreign clients living in China. Platinum has of about 250 clients. Clients can invest in Equity, Bond, Commodities, Money market and Properties through a diversified portfolio. They can manage the investments on their own with all relevant and updated information provided by Platinum. The company provides an online financial platform where investors can personally trade and ask for advice whenever they needed. Also, investors can let the fund manager of Platinum handle their investments through various fund houses. The company is currently working with four advisers, but it is going to increase this number to six by end of June. There is no middle management and administration staff at



Platinum as it mentioned above by Mark Kirkham, because that would decrease the amount of advisory commission. Therefore, non-advisory administration and management procedures take place electronically, over phone or Skype call with headquarter of BCG. Related organizational structure of Platinum is shown in Appendix A-2. Platinum Financial Services receives its remuneration directly from the investment house of the client choice. Generally there are two types of fees, introductory and ongoing servicing. When selecting the chosen investment all fees will be included in the prospectus. (Platinum, 2016).

The company mission statement: *“Our mission is to provide complete Financial Solutions and build long term relationships with our clients based on trust. We develop strategies unique to each client’s situation and then see those plans through”* (BCG, 2015). The company (BCG, 2015) also stated that “Integrity, experience, knowledge, discretion and dependability are the overriding principles on which we have built our business.”

The company strategy: Platinum Financial Services is “combining core traditional values of excellent service and sound independent financial advice with innovative client-oriented products and services” (Platinum, 2016). The company also stated that “having strict internal regulatory and compliance regimes in place gives our clients the peace of mind that they deserve and gives them the necessary assurance that both they and their assets are safe and secure” (Platinum, 2016).

Platinum advisory firm is also affected by the changes and challenges of the industry. Therefore, it also needs to evaluate and improve its current advisory services to remain successful in the future. However, the company does not use any approaches which assist in monitoring, measuring and evaluating its current performances, execution of its current strategies; and help in identifying and focusing on areas that require greater attention.

Kaplan and Norton introduced the Balanced Scorecard (BSC) management and performance control system in the 1990s which have been implemented by many companies in various



industries. BSC can be an effective tool for Platinum to evaluate performance and focus on areas which require improvements by using financial and nonfinancial performance measures (Kaplan & Norton, D, 1996).

## 1.2 Statement of the Problem

Based on the researches created by the leading financial firms, five of the changes and challenges such as (1) increasing regulatory requirements, (2) increasing complexity of investment, (3) increasing number of competing firms, (4) impact of technologies on financial services, and (5) changing behaviour and expectation of investors will have the highest effect on the advisory industry over the next five years. Regulatory change and the implementation of regulations continue to change the industry. There is a swift move toward greater governance, increased transparency and enhanced due diligence. These factors have become the industry best practices, driven in part by regulatory change, and in part by demanding investors (KPMG International, 2013).

Due to the increased types and complexity of investments, more investors are entrusting their money and savings to the advisory industry. As investments products become more intricate, the expertise of advisors and fund managers are in demand, and this has spurred rapid growth. Therefore, the number of competing firms, which provide consulting services that satisfy the investors' rising expectations has increased (KPMG International, 2013). Moreover, there is an increase in the number of fund houses as well.

The expectation of clients is evolving. Changing behaviour of investors becomes another challenge that the financial advisory service providers are facing. Financial advisors therefore need to reinvent their working style in order to effectively engage with customers.

There is a huge impact of technologies on financial services and the investors expect to be served using these new platforms. The financial advisory firms need to be more innovative.



“Thanks to incredible advances in technology and industry giants like Google and Facebook, these industry disruptors are rapidly developing new business models that have the potential to fundamentally change the status quo in the investment management industry” (KPMG International, 2013,p.14).

“Digital entrants use a combination of simplified client experience, lower fees and increased transparency to offer automated advice direct to consumers. This will ultimately benefit investors by providing better and more affordable products and services through an improved client experience” (Ernst & Young LLP, 2015, p.1). Furthermore, due to the increased, fierce competition and the other challenges of the industry, several CEO predicted that as much as 30 percent of the companies will disappear in the next 10 years (KPMG International, 2013, p.19).

As mentioned before, Platinum currently is not using any approaches which enables the company to evaluate the efficiency and effectiveness of its current advisory services and identify areas for improvement to effectively adapt to the changes in the advisory industry.

In summary, the number of rules and regulations issued by regulatory bodies are constantly increasing as well as the complexity of investments which make the advisory services more complicated. There is a fierce competition in the advisory industry which will lead to a significant decrease in the number of competing firms in the next 10 years. The clients’ expectations regarding returns, transparency, integrity, customized services and diversity of investments are increasing. Moreover, technological advancement and automation have significant impact on the way the advisory firms are providing services which also enables new entrants to gain market share through digital innovation. However, Platinum does not have any approaches in place to monitor, measure and evaluate its advisory services and strategy execution or whether or not it is able to effectively face the industry challenges listed above. These industry challenges and the fact that Platinum has no performance and management



control system in place to meet the identified challenges are the reasons for conducting the research.

### 1.3 Purpose of the Study

The purpose of this research is to introduce, demonstrate and recommend an effective management control system tool that Platinum Financial Service Limited can use to monitor and improve the efficiency and effectiveness of the execution of the current strategy of its advisory and consulting services. Therefore, the paper explains what the Balanced Scorecard is by comparing to other methods including Traditional Budgeting and Six Sigma and to Platinum's advisory services and characteristics in order to suggest the most appropriate method for Platinum. Furthermore, the aim of this paper is to help highlighting management and employees' attention to areas for improvements by using the selected management control system tool, the Balanced Scorecard, based on the identified rising changes and challenges in the financial advisory industry which then related to specific problems within Platinum's current strategy. Moreover, using an effective management control system such as the Balanced Scorecard, help improving advisory efficiency for the purpose of sustaining investors' satisfaction and effectively handling the changes in the financial advisory industry which affect Platinum's current advisory services and strategies as well.



## 1.4 Research Questions

The research question will be investigated and answered as follows:

How can Platinum improve its current advisory and consulting services to effectively adapt to changes and respond to the challenges of the financial advisory industry by using the Balanced Scorecard approach?

In order to answer and solve the research problem and the main research question, the related sub questions that need to be answered as follows:

1. What is Balanced Scorecard?
2. Why the Balanced Scorecard is the most appropriate Management Control System for Platinum?
3. What kind of changes and new challenges Platinum Financial Services is facing in the financial advisory industry?
4. How can Platinum apply the Balanced Scorecard to improve its current advisory and consulting services to effectively adapt to changes and respond to the challenges of the financial advisory industry?

## 1.5 Significance of the Study

The financial advisory industry is constantly changing (KPMG International, 2013; Ernst & Young LLP., 2015; Seetharaman, 2015). Advisers need to navigate a number of challenges and adapt to changes in order to deliver more value to their clients. Advisers play a critical role to Platinum is able to provide its clients with the best services and they help ensure that the clients' investments are safe which means supporting them and helping them navigate these challenges and adapt to changes in order to effectively execute Platinum's current advisory strategies and services is key to the success of the company as well. The research examines how advisers might deliver more value to clients by improving



the efficiency and effectiveness of the execution of Platinum's current advisory services introducing the Balanced Scorecard tool. Meeting the clients' needs and delivering services that are valued can increase from the implementation of the Balanced Scorecard management control system which the research paper intend to introduce, demonstrate and recommend. This management control system tool informs the management and helps monitoring and enhancing the advisor's ability to meet needs created by industry-wide changes and challenges which reflected in specific company related issues. By implementing the Balanced Scorecard in Platinum can show that an effective management control system will help the company to focus on and improve various areas of its business, which can facilitate learning in other companies.

### 1.6 Structure of the Paper

Initially, the paper will explain the theory of the Balanced Scorecard approach and why the Balanced Scorecard is the most appropriate Management Control System for Platinum to use. Then the paper will introduce the research methods used to collect and analyse data. Following that, it will list the main issues and problems that exist in the firm and relate them to the main changes and challenges of the financial advisory industry identified by the researches of the leading financial firms and to the company's strategies. Then the collected data, regarding Platinum's current advisory services, will be analysed. At this point; the paper will apply the Balanced Scorecard Management Control System, and identify financial and nonfinancial measures and attach targets to them in all four perspectives to indicate how the company can better execute its strategies by focusing on the identified areas and therefore, better meet the industry challenges.



## Chapter 2: Literature Review

In this chapter the theory applied in the research paper is explained. Therefore, the literature review helps answer the first sub question: What is the Balanced Scorecard? It gives a detailed explanation of the advantages and the limitations of the Balanced Scorecard method. In the theory, two more management system tools, Traditional Budgeting and Six Sigma are selected and explained including their advantages and limitations. After that, each of these methods and its characteristics is compared to Platinum's company characteristics which promotes the Balanced Scorecard as the most appropriate method for Platinum. To motivate the choice, Platinum's mission and strategies are highlighted as they are important factors in the selection. Therefore, in the end of the chapter, the second sub question is answered: Why the Balanced Scorecard is the most appropriate management control system for Platinum?

### 2.1 Theory

In the theory, three management systems including Traditional Budgeting, Balanced Scorecard (BSC) and Six Sigma ( $6\sigma$ ) are explained and analysed with the aim to answer the first sub question: What is the Balanced Scorecard and help to motivate the reasons why the Balanced Scorecard is the most appropriate method for Platinum. There are various techniques available for companies to implement. The traditional budgeting is selected with the purpose of representing the category of techniques which focus on only financial measures such as cost accounting and capital budgeting. To help strongly motivate the choice of the BSC method, Six Sigma is selected with the purpose of representing the category of techniques that focus on financial and nonfinancial measures such as continuous improvement (Kaizen) or Total quality management (TQM). Moreover, Six Sigma is selected as it has similar characteristics with the BSC explained in the theory, therefore the comparison enables the paper to execute an objective analysis.



### 2.1.1 Traditional Budgeting

Budgets were developed in the 1920s and “considered to be the key drivers and evaluators of managerial performances” (Cardos & Stefan, 2016, p. 573). At first, budget was developed for three main purposes; to coordinate financial activities, communicate financial expectations and motivate managers to act in the best interest of the organization (Horváth & Sauter, 2004). Therefore, it has mainly a control function. The budget is used to allocate resources, give an understanding of the organization’s financial goals and reward managers for achieving the planned targets (Horváth & Sauter, 2004). Now, budgeting is a management tool with multiple purpose.

Based on Merchant and Van der Stede (2011, p. 320) “Budgets provide a way of converting managers’ vision into an organized set of tactics that are employed throughout their organization. They provide a standard that can be used to judge organizational success or progress.” The budgeting system has a planning function as it helps to plan actions that the company wishes to take in the future. These actions are financial related such as cash inflow, outflow and sales forecast or cost prediction. Therefore, budgeting is “important element of financial results control system. Budgeting targets are typically financial in nature, they are typically expressed on a fiscal year or annual basis” (Merchant & Van der Stede, 2011 p. 306, 310).

Budgets are also used for performance evaluation and motivation. Merchant and Van der Stede (2011, p. 309) stated that “budgets become targets that affect managers’ motivation, because the targets are linked to performance evaluations and various incentives”. Companies compare targets to the actual performance. The variance between the plan and the actual outcome is investigated and actions are taken. Budgets also used to assign and distribute accountability and responsibility which is an important role of the budget (Merchant & Van der Stede, 2011).



When the budget is prepared, responsibility is assigned to the managers and employees for the outcomes to motivate them to achieve the financial targets. The budget performance targets can be prepared based on historical results, using top down approach when top management prepares the budget without the involvement of other employees, based on negotiation between top management and management at the operational level or using the bottom up approach when middle management prepares its own budget (Cardos & Stefan, 2016). “Higher-level managers are generally more knowledgeable about the overall organization’s objectives and resource constraints. Lower level managers generally have superior knowledge about the business prospects and constraints at the operating level” (Merchant & Van der Stede, 2011, p. 311). Although a widespread use, traditional budgeting received several criticism and dissatisfaction (Horváth & Sauter, 2004; Merchant & Van der Stede, 2011).

Traditional budgeting only considers financial outcomes for a shorter period of time and uses only financial measures to evaluate the company’s performance. Based on Horváth and Sauter (2004, p.1) “It focuses managers’ attention on the next year-end rather than on supporting medium-term strategy execution.” Moreover, budgets more focus on cost reduction than strategy and value creation (Cardos & Stefan, 2016). Thus, the financial targets encourage short-term goals such as cost savings and do not emphasise long-term strategies like improving the quality of product or services and increasing efficiency and effectiveness which can result in value added for the organization. Budget targets do not take into consideration whether the company’s strategy effectively executed or not. Furthermore, necessary investments or plans for improvements can be delayed to reach the current year budget targets. In addition to this disconnection, strategic planning and budgeting are often not linked (Horváth & Sauter, 2004).

Another criticism of the tool is that the top down method can decrease employees’ motivation and “those who asked to achieve those targets do not share that perception of achievability” (Merchant & Van der Stede, 2011, p.318). Furthermore, negotiating the targets between



management is time consuming and this method among the bottom up approach “can also enhance game playing” (Merchant & Van der Stede, 2011, p. 321). In other words, setting goals that are easily surpassed to win a bonus (Johnson, 2005, p. 1). In the short-term, the too optimistic projection will provide good performance results, healthy resources, and bonuses. But in the long-term, it will “create a culture of underperformance” (Johnson, 2005, p.1). Thus, budgeting often does not motivate the managers to act in the best interest of the organization (Horváth & Sauter, 2004).

Traditional budget is evaluating and monitoring performance only from one perspective which is financial. Therefore, it does not enable management to have an overview of the overall performance of the operational processes (Kaplan & Norton, January 1996). Moreover, budgets do not measure and evaluate the companies’ intangible, intellectual assets and capabilities such as knowledge, employee’s moral or ability to innovate (Kaplan, 2010). However, organizations’ strategic values rely on their intangible assets which are crucial in order to remain competitive in the future (Murby & Gould, 2005; Kaplan, 2010). Budgets still play an important role in the financial management of companies. However, in today’s fast changing and highly competitive environment traditional budgeting can “no longer serve as a company’s only management system and it must integrate with management systems and process improvement systems to support strategy execution” (Horváth & Sauter, 2004, p.9). The characteristics of Traditional Budgeting are summarized in table in Appendix C-1.



### 2.1.2 Balanced Scorecard (BSC)

Kaplan and Norton developed and introduced the Balanced Scorecard (BSC) in 1992 which is a framework that translates the company's strategic objectives into performance measures (Murby& Gould, 2005). Moreover, the Balanced Scorecard is a management system that manages the execution of the company's strategy by translating strategy into action (Kaplan & Norton, 1996). Thus, once the strategy related drivers are identified, the BSC helps management to focus on the effective execution of the processes which are crucial to strategic success. The BSC introduced four management processes including clarify and translate vision and strategy, communicate and link strategic objectives and measures, plan and set targets as well as align strategic initiatives, and enhance strategic feedback and learning (Kaplan & Norton, January 1996). Graphical presentation can be found in Appendix C-2.

One of the reasons of the BSC development is the belief that in today's fast-changing and competitive environment the financial measures of performance are not effective as financial data usually reflects the company's historical performance (Kaplan & Norton, 1993). The "BSC is not a replacement of the financial measures, it is their complement" (Kaplan & Norton, January 1996, p. 75). It still focuses on financial objectives, but it also assigns performance drivers to the financial objectives. Moreover, it "complements the financial measures of past performance with measures of drivers of future performance. The objectives and measures are derived from the organization's strategy" (Kaplan & Norton, 1996, p.8). Thus, the BSC translates strategy into objectives and measures which can be also linked to budget and it helps to ensure the alignment between financial and nonfinancial measures.

The other reason of the BSC development is that financial measures do not measure intangible assets and "if you cannot measure it, you cannot improve it" (Kaplan, 2010, p.3). Nowadays, organizations realize that their strategic values heavily rely on their intangible and intellectual



assets such as system, processes, knowledge and the ability to innovate (Murby & Gould, 2005). Thus, intangible assets are crucial in order to remain competitive in the future. Kaplan (2010) believed that companies need to integrate the measurement of their intangible assets into their management system in order to be able to improve them. The BSC enables the management and measure of intangible assets by integrating nonfinancial indicators into the management control system (Kaplan, 2010).

The BSC helps management to monitor and evaluate the effectiveness of organizational strategy by using linked performance measures based on four perspectives including financial, customer, internal business processes, and organizational learning and growth (Kaplan, 2010). Moreover, the BSC helps to create a balance between the performance measures of the four perspectives; enables an organization to measure that how the business units create value, and helps to capture the crucial value-creation activities (Kaplan & Norton, 1996).

According to Kaplan and Norton (1992) the financial perspective focuses on how the company should look financially to the shareholder as the financial goals typically are related to profitability, growth and shareholder value. The financial performance measures indicate “whether the company’s strategy and execution are contributing to bottom-line improvement” or not. Moreover, a failure to convert the improved performance of the other three perspectives into improved financial performance is a sign to rethink the organization’s strategy or its implementation plan. Kaplan and Norton (1992, p. 77) explained that the customer perspective focuses on how the company is performing according to the customer. Customer’s concern mainly related to time, quality, performance and service, and cost. Therefore, the companies need to translate the goals of these four customer concern categories into specific measures. Based on Kaplan and Norton (1992) publication, the internal business process perspective focuses on what the company needs to excel in order to meet customer expectations. Therefore, the customer-based measures need to be translated into measures related to those internal



operations which have the greatest impact on customer satisfaction in order to be able to satisfy customer needs. Kaplan and Norton (1992) also discussed the organizational learning and growth perspective which focuses on how the company can improve, innovate and create value in order to achieve its vision and strategic goals as the fierce competition of the market requires companies to focus on continual improvements and expanded capabilities. The links between the BSC performance measures and the four perspectives demonstrated graphically in Appendix C-3.

Employees, process performance and intangible assets such as knowledge and technology are crucial for companies' success which also have direct impact on revenue and profit. Using the BSC tool, improvements in performance and intangible assets affect and increase financial performance and outcomes through cause and effect relationships due to the link between the four perspectives and financial and nonfinancial measures of the scorecard (Kaplan, 2010). For example, investment in employee training leads to service quality improvement which leads to higher customer satisfaction and customer loyalty which generate higher revenue using an effective BSC (Kaplan, 2010, p. 8). The relationship between financial and nonfinancial measures demonstrated graphically in Appendix C-4. By combining the four perspectives, the BSC helps managers understand many interrelationships. Furthermore, it helps managers to focus on and consider all important measures together to identify whether areas improved at the expense of others or not as "even the best objectives can be achieved badly" (Kaplan & Norton, 1992, p. 73). An effective BSC helps optimize information flow by limiting the measures used to focus on the most important areas which require specific attention while at the same time providing managers sufficient information from four different perspectives (Kaplan & Norton, 1992).

According to Kaplan and Norton (1992, p. 79) the BSC "put vision and strategy at the centre and measures are designed to drive people toward to the overall vision and strategy, and move



the company forward”. The BSC helps ensure that the entire organization understands the strategy. Thus, it helps managers communicate the strategy and what the company is trying to achieve at all levels of the organization and link to departmental and individual objectives and performances. Therefore, the BSC engages employees in activities including communicating and educating, setting goals and linking rewards to performance measures. An incentive system and rewards, based on scorecard measures, enhance not only the achievement of financial goals and objectives but economic value added, long-term goals as well. Employees are motivated as they see and understand the link between the strategy and the action plan and know what strategy related goals the company intend to achieve (Kaplan & Norton, 1993).

The BSC is a popular tool also because of its flexibility and adaptability. It can be developed in organizations operating in various industries and sectors to measure and monitor performance (Murby & Gould, 2005). Every organization is different, therefore the BSC makes it possible for organizations to create their own unique scorecard. Furthermore, it enables organizations to integrate other performance improvement tools and techniques. These are used, by the organization with the BSC approach to help monitor the most important drivers of future success (Kaplan, 2010; Murby & Gould, 2005).

Although the BSC has been popular and successfully implemented in many organizations, it has also received several criticisms (Murby & Gould, 2005; Salem, Hasnan & Osman, 2012). The implementation of the BSC can be difficult and time-consuming. Therefore, the scorecard can be ineffective if there is a lack of long-term commitment from employees or if the strategy has changed and the company does not take this fact into consideration during the implementation (Murby & Gould, 2005; Kaplan & Norton, 2000). Furthermore, regardless of the incentive system and rewards linked not only to financial results, but the scorecard measures as well, the performance targets still can be negotiated to make them easily



achievable which can create underperformance in the four perspectives and make the BSC less effective (Murby & Gould, 2005).

The BSC may not be effective if the company does not apply an optimal number of measures. Too few measures may not create a balance between the four perspectives and the financial and non-financial measures, therefore, the company may miss identifying some critical measures. If the company applies too many measures, however, it cannot focus on the most important value creation processes which are directly linked to the financial measures and the company's strategy due to the large number of information (Kaplan & Norton, 2000). Furthermore, if the company does not apply the correct measures and those measures do not link to the company's strategy, it can mislead management when it evaluates and monitors the effectiveness of the company's strategy execution especially if there are too few measures applied in the scorecard (Salem, Hasnan & Osman, 2012).

Another criticism regarding the BSC is that there is no and cannot be quantitative cause-effect relationship and link between financial and nonfinancial measures such as customer loyalty and financial performance. This can lead the company to make invalid assumptions (Salem, Hasnan & Osman, 2012; Murby & Gould, 2005). However, Kaplan and Norton only suggest incorporating the most crucial areas (Kaplan & Norton, 1996). For example; companies should make an analysis of those customer's concerns that identify the demand which if satisfied, can create profit for the company (Salem, Hasnan & Osman, 2012).

Some critics have stated that the BSC only focuses on internal aspects and does not consider external conditions and competitors which can be a threat to the current strategy (Murby & Gould, 2005). The BSC does not focus specifically on competition and some other external aspects, however, it is a tool that focuses on how the company can improve, innovate and create value in order to achieve its strategic goals and build competitive advantages (Salem, Hasnan



& Osman, 2012; Kaplan & Norton, 1992). The characteristics of Balanced Scorecard are summarized in table in Appendix C-5.

### 2.1.3 Six Sigma ( $6\sigma$ )

Six Sigma is a management methodology and framework that focuses on achieving performance excellence by reducing defects in any processes, ideally 3.4 defects per million products. Six Sigma measures how far the current process is from being defect free, hence, how far it is from perfection (Perez, 2010). Thus, its purpose is to find defects in the process and find a solution to eliminate them while improving the performance of the processes and products to meet Six Sigma quality and customer requirements.

Six Sigma is developed by Motorola in the 1980s. At first, it is developed to improve manufacturing processes. It has become a popular quality and performance management tool and it is adopted by 500 Fortune companies including General Electric, Sony, Caterpillar, JP Morgan, Boeing, American Express, Texas Instruments and many other organizations (Nakhai & Neves, 2009). Recently, it has been adopted in various non-manufacturing industries and sectors such as banking, health care, fast food, military and airlines; and it has been applied to different type of business processes (Perez, 2010).

Six Sigma has five stages called DMAIC to solve operational related issues and eliminate defect demonstrated graphically in Appendix C-6. DMAIC stands for Define the problem and what the customers require, Measure the defects and process operation, Analyse the data against the target and discover the causes of the problem, Improve the process to remove the causes of the defect and Control the process (Long, 2011). Six Sigma focuses on the customers as they define quality. Therefore, all decisions made are customer-focused. The product or service defect means that the company's processes do not reach customer expectation and do not deliver what was promised to the customer (Biolos, 2003). Therefore, using Six Sigma to



optimize and improve the business processes and eliminate defects helps increase customer satisfaction and loyalty (Perez, 2010).

Six Sigma is process oriented and data driven. It uses statistical methods to monitor the process management of the company, identify inefficiencies and root cause of the problem, and decrease process variation (Perez, 2010). It is a measurement system to track progress (Long, 2011). Six Sigma can be used to implement and focus on separate projects. It helps reduce operational costs and increase productivity and efficiency by identifying which processes need to be improved and which are performing well. Therefore, the company can find the most efficient way to perform the processes (Nakhai & Neves, 2009). Furthermore, Six Sigma helps enhance process discipline and control and to create a culture of continuous improvement. Organizations can link Six Sigma goals to employee goal setting and the creation of incentives can motivate the employees to focus on process quality and continuous improvements which can enhance increase in productivity, quality and customer satisfaction (Perez, 2010).

Six Sigma encourages training and education at all levels of the organization as employees need to receive training from institutions which provide certified training in various levels such as Champions, Black Belt, Green Belt, Yellow Belt and White Belt in order to understand the Six Sigma methodology and how to apply it. Each Belt is a different level of mastery of the Six Sigma methodology. Then, the Champions and Black Belts provide the necessary planning, teaching, coaching and consulting at all levels of the organization (Long, 2011). Therefore, it enhances total cooperation in the company. Six Sigma uses financial and non-financial measures mainly related to cost reduction, elimination of defect, improvement of business processes and quality, and the increase of customer satisfaction and profit. Therefore, there is a link between financial management such as financial planning and budget, and process and performance management as the achieved improvements in process and performance directly related to financial management's goals and financial results (Nakhai & Neves, 2009). Hence,



using Six Sigma management system, organizations can identify defects and eliminate them through process improvements which can enhance increase in quality, customer satisfaction, profit, efficiency, and effectiveness. Furthermore, increased efficiency and effectiveness can enhance decreases in costs.

Besides of the advantages, Six Sigma also has its disadvantages which need to be weighed against the benefits of the methodology. So that employees understand the tool and apply it effectively, companies need to invest time and money into training. Therefore, to implement Six Sigma is costly and time-consuming. It also requires hard work and dedication from employees, especially to receive a higher level of Six Sigma certification (Nakhai & Neves, 2009). Moreover, Six Sigma often requires companies to redesign all their operations and change company culture which also require the commitment of the top management and employees. Successful Six Sigma implementation relies on the people. Therefore, if employees are demotivated and do not train properly, the Six Sigma tool cannot be implemented effectively (Biolos, 2003). According to Biolos (2003) “a successful Six Sigma effort requires relentless communication and reinforcements- well beyond what most leaders assume is enough.”

Six Sigma has been implemented by many organizations including non-manufacturing companies operating in the service industries. However, many research publications, Six Sigma Champions and Black Belts are questioning the effectiveness of the Six Sigma tool in service companies (Nakhai & Neves, 2009; Long, 2011) and stating that Six Sigma can be an effective tool with the combination of other management systems (Biolos, 2003; Perez, 2010).

One of the criticisms of Six Sigma is its customer orientation. As it is a customer focused quality control tool, most of the information collected from the “voice of the customer” (Long, 2011). In other words, information on customer satisfaction and customer expectation are used



to define defect. Biolos (2003) highlights, that every customer is different, therefore, Six Sigma does not work for every service processes. Long (2011), Nakhai and Neves (2009) also discussed the challenges of the effective implementation of Six Sigma and whether it is or is not a sufficient tool for service companies. Long (2011) argued that in manufacturing companies it is easier to identify and measure defects than it is to do so in service companies as it is difficult to measure and quantify that which processes matter most to the customer. Furthermore, Long (2011) also mentioned that every customer values the business processes at different levels. In correlation, Nakhai and Neves (2009) findings on Six Sigma implementation in service companies state that service quality is more difficult to evaluate than product quality as service quality is the result of the comparison of actual service performance and customer expectations and satisfaction which is based on how the customer feels about the service. Moreover, it is harder to collect data in service companies and harder to measure due to the various things that can happen during meetings and communications between the customer and the service provider. Furthermore, data is not as reliable as data collected in manufacturing, because it is hard to effectively quantify every aspects of a customer and provider interaction. Long (2011) stated that a defect in a service environment is an intangible aspect. Companies invest and put a lot of effort into the collection of data and use statistical calculation for customer satisfaction which is based on customer experiences which can be varied due to different circumstances while the company is providing the same service. Long (2011), Nakhai and Neves (2009) also concluded that service organizations are missing major amount of data needed to make the necessary calculations related to project definition and problem identification. Therefore, the cost of implementing Six Sigma may outweigh the benefit for service organizations.

Six Sigma is applied to all business processes and projects which are analysed and improved separately (Nakhai & Neves, 2009). It does not look at the whole process just parts of it where



improvement techniques applied (Long, 2011). Biolos (2003) stated that in companies where there are highly customized processes and have a high variability of tasks which are used in different situation is difficult to implement Six Sigma due to the several non- standardized processes. Biolos (2003) also highlighted that highly personalized service companies often have various standardized processes including filling out forms, follow-up information which can be improved to increase customer satisfaction. However, the benefit of Six Sigma often greater in those organizations that do not require significant customizations (Perez, 2010). Therefore, highly customized service companies need to weigh whether or not the cost exceeds the benefits (Biolos, 2003).

Citibank and Bank of America among others applied Six Sigma successfully (Perez, 2010; Nakhai & Neves, 2009). However, they combined and blended Six Sigma with other management systems and performance management techniques in order to better suit these service companies' needs (Perez, 2010). Biolos (2003) also stated that Six Sigma does not work for every service processes, therefore adjustment may need to be made. Long (2011) conducted interviews with Black Belts which highlighted that the combination of Six Sigma elements with other management systems made successful improvements in service companies. In his publication Biolos (2003) quoted Professor W. Edwards Deming who developed management theories on quality control that "People do not cause defect, systems do". Which means, that employees' actions are highly influenced by the way the system is set up. As Long (2011) stated, in order to be successful, process improvement should look at the whole process and not just a small part of it. In order to Six Sigma be an effective tool for service companies, it should be combined with other management systems, performance management and process improvement techniques (Perez, 2010). Therefore, companies often use both Six Sigma to improve internal process and other methods such as the BSC to manage strategy and turn the process into action (Gupta, 2004). Furthermore, for service organizations, it is a better approach



to apply an effective process and performance management technique which starts with the strategy of the organization (Long, 2011). The characteristics of Six Sigma are summarized in table in Appendix C-7.

## 2.2 Comparison between the three models

In this paragraph, the three models which analysed in the theory are compared to give an answer for the first sub question: What is Balanced Scorecard? Moreover, it helps highlight the reasons that why the Balanced Scorecard is the most appropriate method, especially for service companies which enables to partly answer the second sub question: Why the Balanced Scorecard is the most appropriate management control system for Platinum?

Traditional budgeting is a tool for planning, performance and management control and is used to allocate resources, evaluate performance, motivate employees, provide incentives and distribute responsibility. As such, it delivers information on financial goals only by using financial measures and targets (Horváth & Sauter, 2004; Merchant & Van der Stede, 2011). Therefore, it evaluates and monitors performance only from one perspective and it does not give management the best overview of performance of its operational processes (Kaplan & Norton, January 1996). The financial targets of budgeting encourage short-term goals and do not emphasise long-term strategies like improve quality of product or services and increase efficiency and effectiveness factors which add value to the organization (Cardos & Stefan, 2016). Moreover, budget targets do not take into consideration whether the company strategy effectively executed or not (Horváth & Sauter, 2004).

According to Kaplan and Norton (1993), the limitations of the budget was one of the reasons that they developed the Balanced Scorecard. It is a framework that translates the company's strategic objectives into performance measures (Murby & Gould, 2005). Moreover, the BSC is a management system that clarifies and translates vision and strategy, communicates and link



strategic objectives and measures, plans and sets targets as well as aligns strategic initiatives, and enhances strategic feedback and learning (Kaplan & Norton, January 1996). It helps management to focus on the effective execution of the processes which are crucial to strategic success by using linked performance measures based on four perspectives including financial, customer, internal business processes, and organizational learning and growth (Kaplan, 2010). Therefore, the BSC uses financial and nonfinancial measures.

Six Sigma is a management methodology and framework focuses on improve processes by reducing defect and increase quality. It uses statistical methods to monitor the process management of the company, identify inefficiencies and root cause of the problem, and decrease process variation (Perez, 2010). Although, it was developed to improve manufacturing processes, it has become a popular quality and performance management tool and it has been adopted in various non-manufacturing industries and sectors (Nakhai & Neves, 2009; Perez, 2010). Unlike traditional budgeting, Six Sigma uses financial and non-financial measures; there is a link between financial management such as financial planning and budget, and process and performance management as the achieved improvements in process and performance directly related to financial management's goals and financial results (Nakhai & Neves, 2009). Therefore, there are similarities between Six Sigma and the Balanced Scorecard. Six Sigma has five stages called DMAIC to solve operational related issues and eliminate defect. DMAIC stages include Define, Measure, Analyse, Improve and Control. However, it focuses on only the customer, and information on customer satisfaction and customer expectation are used to define defect.

Budgets do not measure and evaluate the companies' intangible and intellectual assets. They do not evaluate a company's capabilities such as system, process, knowledge, employees moral or ability to innovate (Kaplan, 2010). However, organizations' strategic values rely on their intangible assets which are crucial in order to remain competitive in the future (Murby &



Gould, 2005; Kaplan, 2010). Therefore, companies need to integrate the measurement of their intangible assets into their management system in order to be able to improve them. This was one of the other reasons that Kaplan and Norton developed the BSC as it enables the management and measurement of intangible assets by integrating nonfinancial indicators into the management control system. Using the BSC tool, improvements in performance and intangible assets affect and increase financial performance and outcomes through cause and effect relationships. This happens because of the link between the four perspectives and financial and nonfinancial measures of the scorecard (Kaplan, 2010). Six Sigma is process oriented, customer focused and data driven (Perez, 2010). Many research publications, Six Sigma Champions and Black Belts are questioning the effectiveness of the Six Sigma tool in service companies (Nakhai & Neves, 2009; Long, 2011). Long (2011) stated that a defect in a service environment is an intangible aspect. It is difficult to measure and quantify that which processes matter most to the customer in service companies and every customer values the business processes at different levels (Long, 2011). Furthermore, data is not as reliable as data collected in manufacturing, because it is hard to effectively quantify every aspects of a customer and provider interaction (Nakhai, Neves, 2009). Therefore, by focusing on only the customer, Six Sigma is not an effective tool to monitor and evaluate intangible aspects, especially when using statistical calculations.

A budget often does not motivate the managers to act in the best interest of the organization and it enhances game playing due to the disconnection between strategic planning and budgeting as incentives are linked to the financial performance and results. Necessary investments or plans for improvements can be delayed to reach the current year budget targets (Horváth & Sauter, 2004; Merchant & Van der Stede, 2011). Furthermore, it demotivates employees if they are not involved in the planning or they are not educated about the objectives and goals (Merchant & Van der Stede, 2011). The BSC helps managers communicate the strategy and what the



company is trying to achieve at all levels of the organization and link to departmental and individual objectives and performances. Incentive system and rewards that are based on scorecard measures enhance not only the achievement of financial goals and objectives, but economic value added, long-term goals as well. Employees are motivated as they see and understand the link between the strategy and the action plan and know what strategy related goals the company intend to achieve (Kaplan & Norton, 1993). Six Sigma helps enhance process discipline and control and to create a culture of continuous improvement. Organizations can link Six Sigma goals to employee goal setting and the creation of incentives can motivate the employees to focus on process quality and continuous improvements (Perez, 2010). Moreover, it encourages training and education, and enhances total cooperation at all levels of the organization (Long, 2011).

Negotiating the budgets targets between management is time consuming as well as the implementation of the BSC can be difficult and time-consuming (Merchant & Van der Stede, 2011; Kaplan & Norton, 2000). In order to get employees understand the Six Sigma tool and apply it effectively, companies need to invest time and money into training (Nakhai & Neves, 2009; Long, 2011). Moreover, it often requires companies to redesign all their operations and change company culture. Therefore, implementing Six Sigma may cost more than the benefit for service organizations (Biolos, 2003). The implementation of all three management techniques require hard work and commitment from management and employees in order to be effective.

While Six Sigma is data driven and uses statistical calculation to measures how far the current process is from being defect free, traditional budget and balanced scorecard performance targets can be negotiated to make them easily achievable which can create underperformance (Johnson, 2005; Murby & Gould, 2005). Moreover, the Traditional budget and the BSC are not effective tools if the company does not apply an optimal number of measures and the correct



measures or in the case of the BSC they are not linked to the company's strategy (Kaplan & Norton, 2000; Salem, Hasnan & Osman, 2012). Also, Six Sigma is not an effective tool if organizations are missing major amount of relevant data needed to make the necessary calculations (Long, 2011). The tools are more focus on internal aspects and do not focus specifically on competition and some other external aspects. However, the BSC and Six Sigma focus on how the company can improve, innovate and create value (Salem, Hasnan & Osman, 2012; Perez, 2010).

While budgets still play an important role in the financial management of companies and the BSC is strategy oriented and it focuses on the overall strategy, Six Sigma is customer-oriented and focuses on improving processes. Six Sigma is applied to all business processes and projects which are analysed and improved separately (Nakhai & Neves, 2009). Thus, Six Sigma focuses on separate projects. Therefore, in companies where there are highly customized processes and have a high variability of tasks which are used in different situation, unlike the BSC, it is difficult to implement Six Sigma due to the several non- standardized processes (Biolos, 2003).

In today's fast-changing and competitive environment budgets and the financial measures of performance are not effective as financial data usually reflects the company's historical performance and the strategic and operational planning is disconnected from budgeting (Kaplan & Norton, 1993; Horváth & Sauter, 2004). Therefore, it must integrate with management systems and process improvement systems to support strategy execution (Horváth, Sauter, 2004). According to Horváth and Sauter (2004 p. 10) the BSC is a "helpful alignment mechanism for this purpose." The BSC is not a replacement of the financial measures used in traditional budgeting, it is their complement" (Kaplan & Norton, January 1996, p. 75). Furthermore, it enables organizations to integrate other performance improvement tools and techniques (Kaplan, 2010). Researchers identified that there are similarities between the Six Sigma and the Balanced Scorecard (Gupta, 2004). Kaplan and Norton (1996) also identified similarities



between Six Sigma's customer related quality measures and the customer perspective of the BSC. The implementation of Six Sigma using the DMAIC process is also shares similarities with the BSC. In addition, just like the Traditional budgeting and the BSC, Six Sigma can be an effective tool with the combination of other management systems (Biolos, 2003; Perez, 2010). However, for many service organizations is better approach to apply an effective process and performance management technique which starts with the strategy of the organization (Long, 2011).

*Table 1 Comparison between the three models*

| <b>Traditional Budgeting</b>  | <b>Balenced Scorecard</b>  | <b>Six Sigma</b>  |
|---|--|---|
| Tool for planning, performance and management control   | Framework and management system that translates the company's strategic objectives into performance measures   | Methodology, and quality and performance management tool that focuses on improve processes by reducing defect and increase quality in the DMAIC stages.   |
| Allocate resources, evaluate performance, motivate employees, provide incentives and distribute responsibility  | Communicates and link strategic objectives and measures and sets targets as well as enhances strategic feedback and learning   | Uses statistical methods to monitor the process management of the company by identifying inefficiencies and decrease process variation  |
| Evaluates and monitors performance only form financial perspective and it does not give overview of the operational processes' performance  | Uses financial and nonfinancial measures: linked performance measures based on four perspectives including financial, customer, internal business processes, and organizational learning and growth    | Uses financial and non-financial measures, However, it focuses on only the customer and information on customer satisfaction and expectation are used to define defect  |
| Financial targets encourage short-term goals and do not emphasise long-term strategies. Also, targets do not take into consideration whether the company strategy effectively executed or not | Focuses on the effective execution of the processes which are crucial to strategic success by using linked performance measures  | There is a link between financial management and process and performance management as the achieved improvements in process and performance directly related to financial management's goals and financial results  |
| Does not measure and evaluate the companies' intangible and intellectual assets   | Enables the management and measuring of intangible assets by integrating nonfinancial indicators into the management control system  | Defect is identified from customer perspective which in a service environment is an intangible aspect .It is hard to quantify and measure using statistical calculations as data is not reliable. Therefore, it is not an effective tool to monitor and evaluate intangible aspects |
| Does not motivate the managers to act in the best interest of the organization and it enhances game playing as incentives are linked to the financial performance and results                 | Incentive system and rewards that are based on scorecard measures enhance not only the achievement of financial goals and objectives, but economic value added, long-term goals as well                | Helps enhance process discipline and control and to create a culture of continuous improvement as Six Sigma goals linked to employee goal setting. Therefore, incentives motivate the focus on process quality and continuous improvements  |
| Demotivates employees as they are not involved in the planning or they are not educated about the objectives and goals  | Helps managers communicate the strategy and what the company is trying to achieve at all levels of the organization, so employees see and understand the link between the strategy and the action plan | Encourages training and education, and enhances total cooperation at all levels of the organization   |



|   |  |  |
|---|--|--|
| Negotiating the budget targets is time consuming  | Implementation is difficult and time-consuming   | Companies need to invest time and money into training, and it often requires companies to redesign all their operations.   |
| Implementation requires hard work and commitment from management and employees in order to be effective       | Implementation requires hard work and commitment from management and employees in order to be effective  | Implementation requires hard work and commitment from management and employees in order to be effective  |
| Performance targets often are negotiated to make them easily achievable which creates underperformance        | Performance targets often are negotiated to make them easily achievable which creates underperformance   | Data driven and uses statistical calculation to measures how far the current process is from being defect free   |
| Not an effective tool if the company does not apply an optimal number of measures and the correct measures    | Not an effective tool if the company does not apply an optimal number of measures and the correct measures or link to the company's strategy   | Not an effective tool if organizations are missing major amount of relevant data needed to make the necessary calculations   |
| More focuses on internal aspects and do not focus specifically on competition and some other external aspects | More focuses on internal aspects and do not focus specifically on competition and some other external aspects. However, it focuses on how the company can improve, innovate and create value | More focuses on internal aspects and do not focus specifically on competition and some other external aspects. However, it focuses on how the company can improve, innovate and create value |
| Plays an important role in the financial management of companies  | Strategy oriented and it focuses on the overall strategy   | Customer- oriented and it focuses on improving processes   |
| Does not consider the performance of the processes  | Successfully implemented in companies where there are highly customized and non-standardized processes   | Difficult to implement in companies where there are highly customized and non-standardized processes as it focuses on separate projects  |
| Can be integrated and be an effective tool with the combination of other management systems                   | Can be integrated and be an effective tool with the combination of other management systems  | Can be integrated and be an effective tool with the combination of other management systems  |
|   | It is the complement of the financial measures used in traditional budgeting and there are similarities compared to Six Sigma  | There are similarities compared to Balanced Scorecard  |

Answering the first sub question of what is the Balanced Scorecard: it is a management control system that focuses on the company's mission and strategy. It enables the management and measure of intangible assets by integrating nonfinancial indicators into the management control system. It monitors and evaluates the effective execution of the company strategies by using optimal number of linked and balanced performance measures based on four perspectives including financial, customer, internal business processes, and organizational learning and growth (Kaplan, 2010). Moreover, the BSC moves the company forward and helps to achieve the overall company goals and mission by enabling an organization to measure that how the business units create value, and helps to capture the crucial value-creation activities (Kaplan & Norton, 1996).



### 2.3 Why the Balanced Scorecard is the most appropriate management control system for Platinum?

In this paragraph, Platinum's strategy and the company main characteristics are highlighted. Moreover, the three models are compared to Platinum's main characteristics to analyse and motivate that why the Balanced Scorecard is the most appropriate management control system for Platinum which also finally gives the answer for this sub question.

Advisors' aim is to understand clients' financial situation by building partnership with them through several meetings and communications to find out their specific needs, goals and growth objectives. Moreover, the company is focusing on to develop customized financial strategies that fit to the client's situation, risk appetite and investment goals. Each client is unique and Platinum treats clients as the first priority, therefore Platinum is providing advice which is not burdened by self-interest. Advisors should look at what is the best for the client, provide wide variety of products and customized high quality services. Traditional budgeting only considers financial outcomes for a shorter period of time and uses only financial measures to evaluate the company's performance. Moreover, the strategic planning and budgeting are not linked (Horváth & Sauter, 2004). Therefore, traditional budgeting does not enable management to have an overview of the overall performance of the operational processes (Kaplan & Norton, January 1996). To help management monitor and evaluate the effectiveness of organizational strategy, one must begin by using linked performance measures based on four perspectives including financial, customer, internal business processes, and organizational learning and growth (Kaplan, 2010). Therefore, the BSC uses financial and nonfinancial measures and it helps to ensure the alignment between these measures. Using the BSC, Platinum is able to effectively manage its processes and focus on advisors learning to provide the customization of excellent financial services with high-quality standards, thereby increasing customer satisfaction and loyalty that will result in financial growth. Six Sigma uses financial and non-



financial measures; there is a link between financial management and performance management as the achieved improvements in process and performance directly related to financial management's goals and financial results (Nakhai & Neves, 2009). However, many research publications, Six Sigma Champions and Black Belts are questioning the effectiveness of the Six Sigma tool in service companies. It also focuses on the customer only. Information collected on customer satisfaction and customer expectation is used to define defect. Six Sigma is applied to all business processes and projects which are analysed and improved separately (Nakhai & Neves, 2009). As every Platinum's customer is different due to its expectation, financial goals, and investment types among other aspects, every customer is considered as a separate project. Every project is needs to be evaluated and improved by applying the statistical methods individually to each of them. It would be very time-consuming, costly and challenging procedure to apply Six Sigma while the benefit does not exceed the cost. However, using the BSC, all the company's processes aim are designed to reach strategic goals. According to Kaplan and Norton (1992, p. 79) the BSC "put vision and strategy at the centre and measures are designed to drive people toward the overall vision and strategy, and move the company forward". Therefore, regardless of its highly customized processes the BSC helps Platinum focus on the management and effective execution of its strategies by monitoring the processes in all four perspectives.

Advisors must be honest, objective and unbiased as clients can easily be dissatisfied if they do not receive what was promised. Clients expect to receive excellent services in multiple ways. Except the financial return, clients want to know as much as possible about their investments and they want to understand the products they invest to. Advisors need to have the required knowledge about the products to fulfill their clients' expectations. Moreover, clients expect a high level of transparency which includes being informed about all the advantages, returns, disadvantages, fees and product limitations. Advisors need to be an example of due diligence,



honesty transparency, and integrity. They need to provide services by showing the correct actions to take. The regulations also require advisors to be more transparent, provide unbiased advice and client-oriented products. They need to be sure, the client understands the product they are investing in. Advisors need to clearly explain that how the product works, the terms and conditions, returns and the fees assigned to the product. They need to be transparent about the benefits, costs and the limitations as well. Budgets do not measure and evaluate the companies' intangible and intellectual assets due to its focus only on financial perspectives. They do not evaluate a company's capabilities such as system, process, knowledge, employees moral or innovation (Kaplan, 2010). However, organizations' strategic values rely on their intangible assets which are crucial in order to remain competitive in the future (Murby & Gould, 2005; Kaplan, 2010). Therefore, companies need to integrate the measurement of their intangible assets into their management system in order to be able to improve them. The BSC enables the management and measuring of intangible assets by integrating nonfinancial indicators into the management control system (Kaplan, 2010). As Platinum is a financial service company, it is crucial to be able to monitor and evaluate its intangible value like intellectual assets. Using the BSC tool, improvements in performance and intangible assets affect and increase financial performance and outcomes through cause and effect relationships due to the link between the four perspectives and financial and nonfinancial measures of the scorecard (Kaplan, 2010). BSC helps optimize information flow by limiting the measures used to focus on the most important areas that require attention while at the same time providing managers with sufficient information from four different perspectives (Kaplan & Norton, 1992). This will enable Platinum to operate based on transparency, integrity and commitment. These attributes build trust, raise customer satisfaction, loyalty and referrals which are then reflected in increased financial results. Six Sigma does not work for every service processes. Long (2011) stated that it is difficult to measure and quantify how much certain processes



matters to the customer as it is an intangible aspect. Platinum provides customized services where each client's risk appetite, investment goals and therefore portfolios are different. In companies like Platinum, customer satisfaction which is based on customer experiences can be varied due to different circumstances while the company is providing the same service. For example, Platinum constantly provides excellent service, but customer satisfaction depends on the monthly return of the portfolio which is based on the changes in market conditions. In Platinum, values including transparency, integrity, honesty and commitment are crucial to provide excellent service and build trust which are the company's mission. By focusing on only the customer, Six Sigma is not an effective tool to monitor and evaluate these intangible aspects, especially when using statistical calculations.

A budget often does not motivate the managers to act in the best interest of the organization and it enhances game playing due to the disconnection between strategic planning and budgeting as incentives are linked to the financial performance and results (Horváth & Sauter, 2004; Merchant & Van der Stede, 2011). Furthermore, it demotivates employees if they are not involved in the planning or they are not educated about the objectives and goals (Merchant & Van der Stede, 2011). In Platinum, most of the investments are for long-term. Especially, life insurances and life plans that are often created for more than 20 years or until end of life. However, the commission of many investments are paid up front. The risk that advisors and wealth managers may not look after the investments anymore or may make risky or bad investments for higher commission since they are paid in the beginning and not financially affected later on by the investment's outcomes. The BSC helps managers communicate the strategy and what the company is trying to achieve at all levels of the organization. Incentive system and rewards that are based on scorecard measures enhance not only the achievement of financial goals and objectives, but economic value added, long-term goals as well. Employees are motivated as they see and understand the link between the strategy and the action plan and



know what strategy related goals the company intend to achieve (Kaplan & Norton, 1993). Therefore, Platinum's advisors will not be motivated to create too risky portfolios and they help clients to achieve investment goals. Moreover, they will remain committed and continuously overlook and manage client's investment. Six Sigma helps enhance process discipline and control and to create a culture of continuous improvement. Organizations can link Six Sigma goals to employee goal setting and the creation of incentives can motivate the employees to focus on process quality and continuous improvements which can enhance increase in productivity, quality and customer satisfaction (Perez, 2010). Six Sigma is data driven and it uses statistical methods to monitor the process management of the company which enable to eliminate the possibility of game playing and target negotiation (Perez, 2010). However, Platinum has about 250 clients (Platinum, 2016). Therefore, the company itself is not enough big that effectively uses the Six Sigma methodology and applies the concept of reducing defects in any processes, ideally 3.4 defects per million products.

The financial advisory industry is changing (KPMG International, 2013; Ernst & Young LLP., 2015; PWC, 2012; Seetharaman, 2015), therefore, there are a number of challenges that will require the attention of advisers in order to provide clients with the best financial advice. Based on the researches created by the leading financial firms, five of the changes and challenges such as (1) increasing regulatory requirements, (2) increasing complexity of investment, (3) increasing number of competing firms, (4) impact of technologies on financial services, and (5) changing behaviour and expectation of investors will have the highest effect on the advisory industry over the next five years. As Financial Service organizations cannot avoid these challenges, they must adapt by addressing the challenges and changes, and align with effective approaches for improving their financial advisory services. In today's fast-changing and competitive environment budgets and the financial measures of performance are not effective as financial data usually reflects the company's historical performance and the strategic and



operational planning is disconnected from budgeting (Kaplan & Norton, 1993; Horváth & Sauter, 2004). The Balanced Scorecard and the Six Sigma more focus on internal aspects and they do not focus specifically on competition and some other external aspects. However, they focus on how the company can improve, innovate and create value.

The increasing rules and regulations require more effort and time of the advisors, therefore, they need to spend more time with clients to educate them about the product. Clients are more actively engaged in the planning, ongoing and monitoring processes. Moreover, they expect a high level of transparency which includes being informed about all the advantages, returns, disadvantages, fees and product limitations. They want a high level of customer service and care which requires more frequent meetings and direct communications. The most difficult task of advisors is to find a new client. It is much easier to attract investors who were referred by satisfied Platinum investors. Therefore, it is crucial to provide high-quality services, continually look after the client's investment and gain trust and satisfy the clients, because they are more likely to refer the company to other potential investors and invest in other products as well. Looking after these clients' investment and delivering high-quality services will provide much more benefits in the future. Giving advice on investing into products which provide higher commission for an advisor, but lower return for a client maybe deliver more benefit for an advisor in short-term. However, offering products which may provide lower commission, but meet and exceed client's expectation will generate much more advantages in long-term. Therefore, advisors can generate more benefit in the end by looking at client's best interest. It is more difficult to attract clients. Their expectations are higher as they know about the fierce competition that exists between the financial service firms. Moreover, they spend more time contacting several companies to find the one which provides the best-customized service for them. Due to the high competition, the advisory firms are trying to diversify and provide services in a different way than their competitors. This rise in customer expectation has



prompted Platinum to consider offering property investments and other alternative investments.

The financial targets of budgeting encourage short-term goals and do not emphasise long-term strategies like improve quality of product or services and increase efficiency and effectiveness factors which add value to the organization. Moreover, budgets more focus on cost reduction than strategy and value creation (Cardos & Stefan, 2016). The traditional budget does not help Platinum to evaluate whether the advisors have provided advices and invested in products in a way that befits the client's situation and investment goals. Furthermore, it can encourage advisors to make investment decisions that do not meet customers' risk appetite. Using the BSC, once the strategy related drivers are identified, the BSC helps management to focus on the effective execution of the processes which are crucial to strategic success (Kaplan & Norton, January 1996). Therefore, the company can achieve its mission of providing excellent customized services and create long-term relationships with clients based on trust. Six Sigma does not look at the whole process just parts of it where improvement techniques applied (Long, 2011). Therefore, it is difficult for Platinum to achieve its overall goals due to the various unstandardized processes. Moreover, it focuses on process improvements, but due to the Sigma processes and calculations, it does not emphasise diversity and creativity. Traditional budget does not consider other stakeholders and Six Sigma is also client focused only while the Balanced Scorecard is looking at the company from four perspective and helps Platinum's managers to focus on and utilize all important measures together when considering other stakeholders, advisors, providers and fund houses of the company.



*Table 2 Comparison between the three models and Platinum's main characteristics*

| <b>Platinum's characteristics</b>  | <b>Traditional Budgeting</b> | <b>Balanced Scorecard</b> | <b>Six Sigma</b> |
|--|------------------------------|---------------------------|------------------|
| Provide unbiased, honest and objective advice, and client-oriented products based on transparency and integrity with the help of experienced, committed and knowledgeable advisors | X                            | ✓                         | ✓                |
| Make clients actively engaged in the planning, executing and monitoring activities   | X                            | ✓                         | X                |
| Having strict internal regulatory and compliance regimes in place  | ✓                            | ✓                         | ✓                |
| Aligning with partners representing high quality standards   | X                            | ✓                         | ✓                |
| Providing advice which is not encumbered by self-interest  | X                            | ✓                         | ✓                |
| Enhance diversity and thinking out of the box  | X                            | ✓                         | X                |

To conclude, based on the analysis and the comparison of the three selected management systems, the paper promotes the BSC as the best method for Platinum. Answering the second sub question of why the Balanced Scorecard is the most appropriate method for Platinum: it is a management system that manages the effective execution of the company's strategy. Therefore, Platinum's management can monitor and ensure that advisors are providing objective advice, and client oriented products of trusted partners that meet regulatory and compliance requirements. Using the BSC, Platinum is able to effectively manage its processes and focus on advisors learning to provide the customization of excellent financial services with high-quality standards, thereby increasing customer satisfaction, loyalty, and trust that will result in financial growth.

The BSC helps Platinum's managers to focus on and utilize all important measures together when considering other stakeholders, advisors, providers and fund houses of the company. Regardless of its highly customized processes the BSC helps Platinum focus on the



management and effective execution of its strategies by monitoring the processes in all four perspectives. The purpose of which is to achieve its mission and meet the changes and challenges of the financial advisory industry. These attributes build trust, raise customer satisfaction, loyalty and referrals which are then reflected in increased financial results. It helps managers communicate the strategy and what the company is trying to achieve to employees. Scorecard measures enhance not only the achievement of financial goals and objectives, but economic value added, long term- term goals as well (Kaplan & Norton, 1993). Therefore, Platinum's advisors will not be motivated to create too risky portfolios and they help clients to achieve investment goals. Moreover, they will remain committed and continuously overlook and manage client's investment. The BSC enables that organizations to integrate other performance improvement tools and techniques, along with the scorecard approach, to help monitor the most important drivers of future success (Kaplan, 2010; Murby & Gould, 2005). Each management system has its limitations just like the BSC. However, with employees' commitment and effective implementation and execution, the BSC is an effective management control system and performance management tool for Platinum with advantages that provide greater benefit than cost.



## Chapter 3: Methodology

### 3.1 Introduction

In this chapter the different methods applied to collect and analyse data in order to answer the research questions is presented. The research question sets out the main problem that the paper purports to answer. Each answer to a sub-question contributes to the answer to the main query. The thesis involves an applied research. Kothari (2004, p. 16) stated that “applied research aims at finding a solution for an immediate problem facing a society or an industrial/business organisation.” To write the research paper mixed methods approach is used.

In mixed method, both quantitative and qualitative research procedures are used. “The major advantage to choosing to use multiple methods in the same research project is that different methods can be used for different purposes in a study” (Saunders, Lewis & Thornhill, 2000, p. 153).

Qualitative research design helps to have a fuller understanding of the company’s situation through accurate information, conversations or experiences. Furthermore, quantitative research design helps to set performance measures and targets in the four perspectives of the Balanced Scorecard. Therefore, the quantitative research does not involve any statistical calculations in this paper, and its purpose is to help evaluating also quantitatively Platinum’s current strategies and monitoring the effective execution of these strategies by setting quantitative, specific targets. In addition, the archival research and desk research strategy are applied to use historical data, documents created in the yesteryear. Data is collected form company’s meetings is also used to write the research paper. Moreover, interviews are taken to gather information from Platinum’s advisors regarding to the current situation of the advisory industry, Platinum current advisory services and its clients. To analyse the collected data using a theory, the deductive approach is applied.



## 3.2 Methods of Collecting and Analysing Data

### 3.2.1 Data Collection

#### *1. What is Balanced Scorecard?*

Data that have already been collected and analysed in the past are known as secondary data (Saunders, Lewis & Thornhill, 2000). Desk research or secondary data research involves the collection of the secondary data. Online desk research and secondary data analysis are used to collect information from existing research publication that helps explain the theory of the Balanced Scorecard approach.

#### *2. Why the Balanced Scorecard is the most appropriate Management Control System for Platinum?*

Online desk research and secondary data analysis helps explain why the Balanced Scorecard is the best method for Platinum by using existing researches and publications. There are various techniques available for companies to implement. Therefore, two more management system tools are selected, explained and compared with the Balanced Scorecard. Using desk research and secondary data analysis the advantages and limitations of all three methods explained and compared to help strongly motivate the choice of the BSC method. Online desk research is used to collect information on Platinum's mission and strategies as they are important factors in the selection of the most appropriate method, the Balanced Scorecard.

#### *3. What kind of changes and new challenges Platinum Financial Services is facing in the financial advisory industry?*

External online desk research is used to acquire accurate information from existing research papers, publications and journals about the changes and challenges the financial advisory industry is facing. Furthermore, desk research is carried out to collect and analyse existing information on the current advisory system comparing it to the changes and challenges in the industry resulting in the identification of areas for improvements.



Interviews can help to collect valid and reliable information that helps to answer research sub questions and thus, the main research question (Saunders, Lewis & Thornhill, 2000). “Non-standardised such as semi-structured interviews are used to gather data, which are likely to be used not only to reveal and understand the ‘what’ and the ‘how’ but also to place more emphasis on exploring the ‘why’” (Saunders, Lewis & Thornhill, 2000, p. 321). In the semi-structured interview, there are set of questions, however, it is also allowed to bring up new topics and ideas related to the original interview question which enables the discovery of even more information that can help to build on the responses.

The group interview involves four participants who are advisers of Platinum including the Branch/country manager. Kevin Hennessy is the country manager of China and the head of the Shanghai’s office. He also has consulting role at the company and provides advisory services to Platinum’s clients. He mainly focuses on foreign investors working in executive position for international companies in China. Jeff Ngoi is the company’s analyst who provides daily report to the advisors on the financial market and economy such as oil and gold prices; and events that can affect the international market. He is also a financial adviser who mainly focuses on investors from Singapore, Japan and China including Chinese investors as well. Another company’s analyst is Benjamin Bourgoin who mainly focuses on French investors living in China, but he also provides advisory services for foreign investors of all nationalities. He also monitors the activities of the main competitors. Finally, Joey Harneet provides advisory services for Chinese investors and foreign investors living in China with their families.

Two group interviews are conducted with the advisers to collect information for the research paper. Interview questions are created, but the interviews are more interactive which allow for brainstorming and encourage all participants to express their opinion. The group interview is



used to gather information from advisors regarding the current situation of the advisory industry and Platinum's advisory services including bringing forward nuances that increase their capacity to benefit from industry changes and challenges as well as Platinum's current advisory services.

Semi-structured interviews are conducted by meeting the advisers "face to face." The questions are created ahead, however "the order of questions may also be varied depending on the flow of the conversation. On the other hand, additional questions may be required to explore the research question and objectives given the nature of events within particular organisations" (Saunders, Lewis & Thornhill, 2000, p. 320). The participants of the interviews include Kevin Hennessy Branch/country manager and Benjamin Bourgoïn financial adviser. Two interviews are conducted with the interviewees to collect information for the research. "The interviewee is given the opportunity to talk freely about events, behaviour and beliefs in relation to the topic area "(Saunders, Lewis & Thornhill, 2000, p. 3201).

#### *4. How can Platinum apply the Balanced Scorecard to improve its current advisory and consulting services to effectively adapt to changes and respond to the challenges of the financial advisory industry?*

Online desk research and secondary data analysis are used to show that how the BSC can be used to encourage managers to focus their attention on areas require greater attention in order to effectively execute organizational strategies. Desk research is also carried out to collect and analyse existing internal and externa information as well as information on the current advisory system of Platinum to identify financial and nonfinancial measures and attach targets to them in all four perspectives of the BSC.

Archival research, refers to the collection and analysis of administrative documentations and reports which recorded during day-to-day activities. "An archival research strategy allows re-search questions which focus upon the past and changes over time to be answered" (Saunders,



Lewis & Thornhill, 2000, p. 150). Archival research is used to collect and analyse data, documents and reports, recorded by the company to evaluate Platinum's current advisory services. When regarding the identified changes of the industry; this serves to reveal areas for improvement in the four perspectives of the Balanced Scorecard. Furthermore, the company's data collected by archival research is used to set targets for measures by using the Balanced Scorecard. "If your research question(s) and objectives are concerned with what people do, an obvious way in which to discover this is to watch them do it" (Saunders, Lewis & Thornhill, 2000 p.288). Thus, the observation research method involves the action of monitoring something or someone.

Observation helps to gain knowledge of Platinum advisory services through monitoring the company's advisers and operation which also help to identify areas for improvement. Attending company meetings with providers and clients also help to gain more information on the company's operation and the advisory services. Furthermore, the data collected by the research method is used with the aim of focusing the management and employees' attention on the highlighted areas of advisory services by applying measures and targets in the four perspectives of the BSC Management Control System.

### 3.2.2 Data Analysis

The collected data is summarized and categorized by identifying relationships between them. In the research paper the deductive approach is used, therefore, categories created based on the existing theory and theoretical framework used to carry out the research (Saunders, Lewis & Thornhill, 2000). At first, the data is summarized and categorized based on the problems identified in the advisory industry. The company's existing advisory services are analysed to identify problems of company's processes which affected by and related to the changes and challenges of the industry. After that, the data is analysed by using the four perspectives of the



Balanced Scorecard management control system technique which enables to analyse the company's performance from financial, customer, internal process and learning/growth perspectives. Areas are highlighted for greater attention and improvements in all four perspectives. A strategy map is created to identify objectives. Then, financial and nonfinancial performance measures are set which create a focus on the highlighted areas. Data collected on the company's performance is used to set targets in the four perspectives of the Balanced Scorecard which also create a focus of management and employees to improve those highlighted areas to reach the targets by effectively executing the existing strategies, advisory services.



## Chapter 4: Data collection & Analysis. Applying the Balanced Scorecard

This chapter answers the third research sub question of what kind of changes and new challenges Platinum Financial Services is facing in the financial advisory industry. Moreover, the chapter demonstrates and gives answer for the fourth sub question of how Platinum can apply the Balanced Scorecard to improve its current advisory and consulting services to effectively adapt to changes and respond to the challenges of the financial advisory industry. Therefore, it demonstrates how Platinum can monitor the effective execution of its strategies. As previously discussed in Chapter 3 regarding methodology, online desk research is used to show that how the BSC can be an effective tool for this purpose. Archival research is used to collect and analyse data, documents and reports, recorded by the company to evaluate Platinum's current advisory services. Furthermore, observation helps to gain knowledge of Platinum advisory services through monitoring the company's advisers and operation which also help to identify areas for improvement. Moreover, desk research is also carried out to collect and analyse existing internal and external information as well as information on the current advisory system of Platinum which then used to identify linked measures of the BSC.

At first, the problems and issues regarding Platinum's services and strategy execution are identified. After that, Platinum's strategy map is developed to identify objectives in the four perspectives and highlight the cause-effect relationship between them. Finally, measures and targets are assigned to the strategic objectives and Platinum's Balanced Scorecard is created.

### 4.1 Problem identification

Several issues and areas which require improvements have been identified in Platinum's services through observation and interviews-conducted with advisors. These problems affect strategy execution and are related to the identified changes and challenges that have the highest



effect on the advisory industry. The industry challenges which discussed in Chapter 1 include increasing regulatory requirements and client's expectations, increasing the complexity of investment and competition as well as technological changes. The identified problems in the company highlight areas where Platinum's strategies are not effectively executed, therefore, the company cannot successfully achieve its mission which would otherwise also help to handle the rising changes and challenges of the industry.

This paragraph gives answer for the third sub question of what kind of changes and new challenges Platinum Financial Services is facing. As Platinum cannot avoid the industry challenges, it must therefore adapt by addressing the identified problems related to the company strategy and aligning with effective approach for improving the execution of its strategies and successfully achieve its mission. However, Platinum does not use any approaches which assist in monitoring, measuring and evaluating its current performances, execution of its current strategies; and help in identifying and focusing on areas that require greater attention. The BSC is an effective tool for this purpose. Thus, it helps Platinum to evaluate performance and focus on areas which require improvements regarding strategy execution by identifying strategic objectives, assigning financial and nonfinancial performance measures and setting targets.

The identified areas and problems that require greater attention are as follows:

### 4.1.1 Keeping up and complying with increasing regulatory requirements

Increasing and constantly changing rules and regulations make it more difficult for advisors to provide high quality services and they need to gather even more information and gain more knowledge through more frequent training. They also need to have the latest and updated information in order to effectively serve the clients. The regulations require advisors to be more transparent and sure that the client understands the investment products.



However, advisors often do not have enough information on the rules and regulations including the latest changes regarding AEOI and CSR, thus, they do not know how to comply with the new rules (Appendix D-1, Q1, 2). They receive training from the providers, but the quarterly training sessions are not frequent enough to help advisors to receive sufficient information and have the required knowledge (Appendix D-1, Q20). Therefore, they cannot effectively handle the changes and challenges of the industry regarding the increasing rules and regulatory requirements and effectively execute the company's strategies including secure clients' wealth by complying with rules and regulations and provide transparent and quality services (Platinum, 2016).

### 4.1.2 Offering new investment opportunities

Several investors are not attracted to fund investments and they are looking for alternative investments (Appendix D-1, Q6). Moreover, due to high competition, the advisory firms are trying to diversify and provide services that out-perform those of their competitors (Appendix D-1, Q17). Platinum made sales from property investments, but it did not focus on this particular area, thus, it did not sell alternative investment products. Platinum needs to be aware of the increasing demand for these products, otherwise, it cannot meet the clients' higher expectations and handle the challenges of increased competition. If the company does not increase the number of investment opportunities and provide intense training on the new products it may be difficult to compete, meet its strategic goals and Hong Kong's regulatory requirements (Appendix D-1, Q1, 30).

### 4.1.3 Advisors knowledge on financial products

Various terms and conditions are assigned to the financial products which advisors need to take into consideration in order to effectively comply with the rules and regulations when they provide advice. As every client is different, the advisors often do not know enough about a



client's eligibility to invest in a given financial product (Appendix D-1, Q22). Moreover, they often do not have enough knowledge about the policies related to the investments. Clients expect to receive excellent services, and they want to know as much as possible about the investment. Advisers need to have the required knowledge about the products to fulfill client expectations (Appendix D-1, Q3). Therefore, they are more likely to offer products which they understand and are not motivated to sell other less known or new products (Appendix D-1, Q32, 34). As several financial products have very complex and extensive policy, advisors also need more collaboration with the providers to collect all the information needed to effectively advise clients (Appendix D-1, Q27). Platinum is planning to offer alternative investment opportunities, but the advisors have not received sufficient training on the products.

Therefore, Platinum will not be able to handle the challenges regarding the increasing complexity of investments, increasing client's expectation and heightened competition. Moreover, it will not be able to effectively execute its strategies of providing customized, high quality financial services by knowledgeable advisors who focus on client-oriented products that fit the client's investment goals. Advisers' quarterly training is not frequent enough to enhance increased advisory service efficiency and effectiveness (Appendix D-1, Q 17, 20).

#### 4.1.4 Outdated, ineffective and barely transparent reports

When clients invest in fund portfolios, the advisors need to provide reports called shortlists on the funds and the whole portfolio performance on monthly bases (Appendix D-1, Q13). Clients do not understand the results of the monthly report and how their portfolio is performing as neither version provides enough information. However, the company does not have a more transparent version of the shortlists. Therefore, a new short list should be created to provide more detailed information on the fund portfolio. (Appendix D-1, Q14).



In addition, the advisors provide advice on whether the portfolio needs to be rebalanced based on the market changes and volatility to protect return (Appendix D-1, Q9, 10). The switch form is a 10 years old document and the company has never made any changes to its format and structure, and most of the clients do not understand it (Appendix D-1, Q11, 12). Therefore, the company cannot effectively execute its strategies related to providing services that built up trust, transparency and integrity, and increase the clients' involvement. Investors want to be continually informed about their investments and actively engaged in the planning, and on-going monitoring processes. Furthermore, the regulations also require advisors to be more transparent and clearly explain the financial products including the performance, terms and conditions, returns and the fees assigned to the product. Therefore, using the current reporting system, Platinum cannot handle the challenges of increasing regulatory requirements and meet client's expectation.

### 4.1.5 Response to technological changes and automated solutions

There is increasing demand for using digital devices to communicate and send information. As a result, the face to face meetings and phone calls are not always the most effective way to stay in contact with most of the clients (Appendix D-1, Q8). Advisors need to recognize the role that digital technology can play in their advising processes and use online social networks to engage with both clients and professionals to better serve clients and build long-term relationships (Appendix D-1, Q18).

Moreover, there is an increasing demand for more automation and the use of online services (Appendix D-1, Q3). There is no digital version of the switch form being discussed and scanning the forms is the only way to send it to the client via email. It is not the most effective method in today's fast changing and innovative environment. Furthermore, the paper form does



not provide any control procedure to handle typing errors and the use of wrong data and or leaving out important information (Appendix D-1, Q12).

Advisors can collect information on funds from the providers' platform where factsheets and various analysis are available to download. The main challenge is that each provider has its own online platform which is designed and operates in a different ways. Therefore, a platform called Navglobal is created where most of the providers' funds can be found and the advisors can look up and download the needed information and documents. However, the advisors do not use the Navglobal due to poor training on how the website operates. Therefore, they are still using the providers' platform and spending significant amount of time collecting all the necessary information (Appendix D-1, Q16). It is advisable for Platinum to work with service partners who provide automated investment solutions such as Leonteq to help increase advisory efficiency and effectiveness (Appendix D-1, Q35).

Some providers made available its application form online, however, the advisors are still using the paper form. The provider also noticed that there are always some errors in the submitted documents, therefore Platinum should motivate advisors to use the online form as a way to increase efficiency and effectiveness because the forms provide preventive, detective and corrective control. (Appendix D-1, Q18, 21).

There are some new entrants trying to offer online services using technological advancement such as Alibaba in China. The industry is aware of the possibility of new entrants like Google, Apple, Facebook and Amazon which have a strong brand reputation, large customer bases and they are using advanced technology (Appendix D-1, Q17). However, financial firms are responding slowly to the technological changes including Platinum, therefore, it is not able to effectively handle the challenges of technological changes, increasing competition and client expectation.



#### 4.1.6 Focus on employee engagement and collaboration

Although independent advisors work for the company, they need to be team players and effectively collaborate to handle the increasing complexity of investments, client's expectations, and regulatory requirements. Therefore they can provide better services (Appendix D-1, Q19). Advisors often share information and the company also arranges quarterly meetings to discuss issues, special situations, and new findings on products' policies, rules, and regulations. Moreover, the meetings also provide the opportunity to discuss new ideas and suggestions regarding the company's services. These meetings provide relevant information and increase service improvements. Thus, the company should provide more frequent meetings to help improve advisory efficiency, effectiveness, collaboration and commitment (Appendix D-1, Q31).

#### 4.1.7 Focus on client -oriented and value added advises

Regarding the financial products, advisors need to be transparent about the benefits, costs and products limitations (Appendix D-1, Q1). As the complexity of investments increase, the advisors need to spend more time providing services. This includes more frequent, time-consuming meetings and interactions with clients and providers. Advisors often focus on products that provide higher commissions rather than products providing the highest return for the clients. However, the client should come first and advisors should provide advice which is not burdened by self-interest (Appendix D-1, Q32). Giving advice on investing in products which provide higher commission for the advisor, but lower return for client deliver more benefit for advisor in the short-term. However, satisfied clients are more likely to invest in other products and refer the company to other investors.

Therefore, the company needs to provide more training on how advisors can benefit from looking after the client's best interest (Appendix D-1, Q33).



### 4.1.8 Customer care and follow up

Clients expect a high level of customer service and care which require more frequent meetings and communications with them. (Appendix D-1, Q3). If the client invests in health insurance, life insurance or life plan, the advisors usually contact clients once or twice a year to follow up. However, these contacts are not frequent enough. Advisors should check on the clients every three months to improve customer care, offer new investment possibilities and look for networking opportunities that increase market share (Appendix D-1, Q9, 7).

The identified industry challenges have a significant effect on the advisory industry. Therefore, it is crucial for Platinum to be able to achieve its mission to build long-term relationship with clients and create trust by providing value-added services (Appendix D-1, Q17, 23). As advisors receive all their commission up front, they often do not look after the client's investment and do not provide post-sales services (Appendix D-1, Q24, 25). Finding a new client is the most difficult and time-consuming task of an advisor. With so much emphasis placed on referrals; the company should focus on ways to strengthen the culture of commitment, integrity, compliance and customer care. This can be done by providing more frequent training to motivate and highlight the effective practices where advisors provide high-quality services and look after the client's investments regardless of commission payments (Appendix D-1, Q26).

Clients also need to be transparent regarding medical history, lifestyle, health conditions and financial background. There have been issues regarding client's due diligence which advisors find it difficult to prevent, solve and handle (Appendix D-1, Q28). More training sessions need to be provided where the advisors talk about previous cases and have a discussion regarding clients' behaviour, work ethic, employee morale and behaviour. Moreover, advisors need to spend more time with clients to educate them on the terms and conditions and what outcomes



they can except in various circumstances and situations as well as make sure that clients understand all the information (Appendix D-1, Q20, 27, 29).

*Table 3 Summary of the identified industry challenges and problems regarding Platinum's services and strategy execution*

| Identified problems in Platinum services(strategy execution)     | Related Industry challenges          |
|--|--------------------------------------|
| Keeping up and complying with increasing regulatory requirements | Increasing regulatory requirements   |
| Offering new investment opportunities                            | Increasing regulatory requirements   |
|  | Increasing client expectation        |
|  | Increasing competition               |
| Advisors knowledge on investment products                        | Increasing client expectation        |
|  | Increasing competition               |
|  | Increasing complexity of investments |
| Outdated, ineffective and barely transparent reports             | Increasing regulatory requirements   |
|  | Increasing client expectation        |
| Response to technological changes and automated solutions        | Technological changes                |
|  | Increasing client expectation        |
|  | Increasing competition               |
| Focus on employee engagement and collaboration                   | Increasing regulatory requirements   |
|  | Increasing complexity of investments |
| Focus on client-oriented and value-added advises                 | Increasing client expectation        |
|  | Increasing competition               |
|  | Increasing regulatory requirements   |
| Customer care and follow up                                      | Increasing client expectation        |
|  | Increasing competition               |

In summary, analysing the financial advisory industry, five changes and challenges are identified that affect Platinum financial services the most including increasing regulatory requirements and client's expectations, increasing the complexity of investments and competition, and technological advancements. Moreover, analysing Platinum's services, eight different problems emerged that stand in the way of the company's successful strategy execution and handling of industry challenges. Platinum cannot successfully keep up with the increasing rules and regulations and it does not offer enough new investment opportunities. Advisors do not have enough knowledge on financial products and the company uses outdated, ineffective and barely transparent reports. Furthermore, the company responses slowly to technological changes and automated solutions, and it does not focus enough on employees'



engagement and collaboration. Moreover, the company does not demonstrate sufficient customer care and follow up, and does not focus on more client-oriented and value added advises. These are the identified problems and related industry challenges Platinum is facing in the advisory industry, thus, the answer to the third sub question which also demonstrated in a table above.

### 4.2 Strategy Map

In this paragraph the Strategy Map is created with the aim to serve as a basis for the design of Platinum's Balanced Scorecard. Therefore, it helps partly answer the fourth sub question of how Platinum can apply the Balanced Scorecard to improve its current advisory and consulting services to effectively adapt to changes and respond to the challenges of the financial advisory industry. First, the Strategy Map and its purpose is explained. Then, Platinum's Strategy Map is created and visually demonstrated to communicate the company's strategy and identify and illustrate its objectives.

#### 4.2.1 What is Strategy Map

Strategy Mapping is created by the developers of the balanced scorecard, Kapan and Norton and it is a tool to help create an organization's balanced scorecard. It is formulated based on the four perspectives used also in the BSC and it consists of the objectives identified in those perspectives and arrows to illustrate the cause and effect between them. Therefore, the strategy map provides a visual representation of a company's objectives and the cause-effect relationships among them that drive organizational performance. It helps to describe, capture and communicate the company's overall strategy and what goals the company needs to achieve in each perspective to successfully manage and execute its overall strategy. It also highlights how the company best handle its resources including turning intangible assets into tangible outcomes. The strategy map enables the company to describe and illustrate its objectives,



giving employees a clear understanding of how their jobs are linked to the overall objectives of the organization (Kaplan & Norton, September 2000). Therefore, they understand that why their job is important and they accomplish their tasks with focusing on not only their personal goals but the overall objective as well which help to better execute the strategy.

### 4.2.2 Platinum's Strategy Map

In order to develop Platinum's balanced scorecard, the strategic objectives are identified in the four perspectives- financial, customer, internal business processes and learning and growth- based on the identified problems and issues in Platinum's strategy execution. Then, the strategy map is created. The strategy map's objectives help focus on the highlighted issues and areas. Therefore, the findings on the strategy map, thus, the strategic objectives are identified in the four perspectives in a way to help improve the advisory services by providing solutions to the identified problems. Hence, if Platinum focuses on the strategic map's objectives, it can overcome the identified problems which lead to effective strategy execution and improved advisory efficiency and effectiveness.

The strategy map highlights the cause-effect relationships between the strategic objectives in the four perspectives, so improvements made in one perspective lead to improvements in another perspectives. Thus, the strategic objectives on the strategy map are also identified in a way that the objectives of one perspective have positive effect on the objectives identified in another perspective. Therefore, the findings on the strategy map created not only to focus on the identified problems and how to solve them, but also to have positive cause and effect linkage between them.

The objectives can help Platinum to effectively execute its strategies by focusing on ways to achieve their desired outcomes. The financial and customer perspectives are the outcomes, which are what the company wants to accomplish. The internal business processes, learning



and growth perspectives are the inputs, thus, that exemplify how the company wants to accomplish its goals. Moreover, the strategy map aligns intangible assets with the strategy to create value. Then the Balanced Scorecard assigns measures and targets to the strategy map objectives (Kaplan & Norton, 2004).



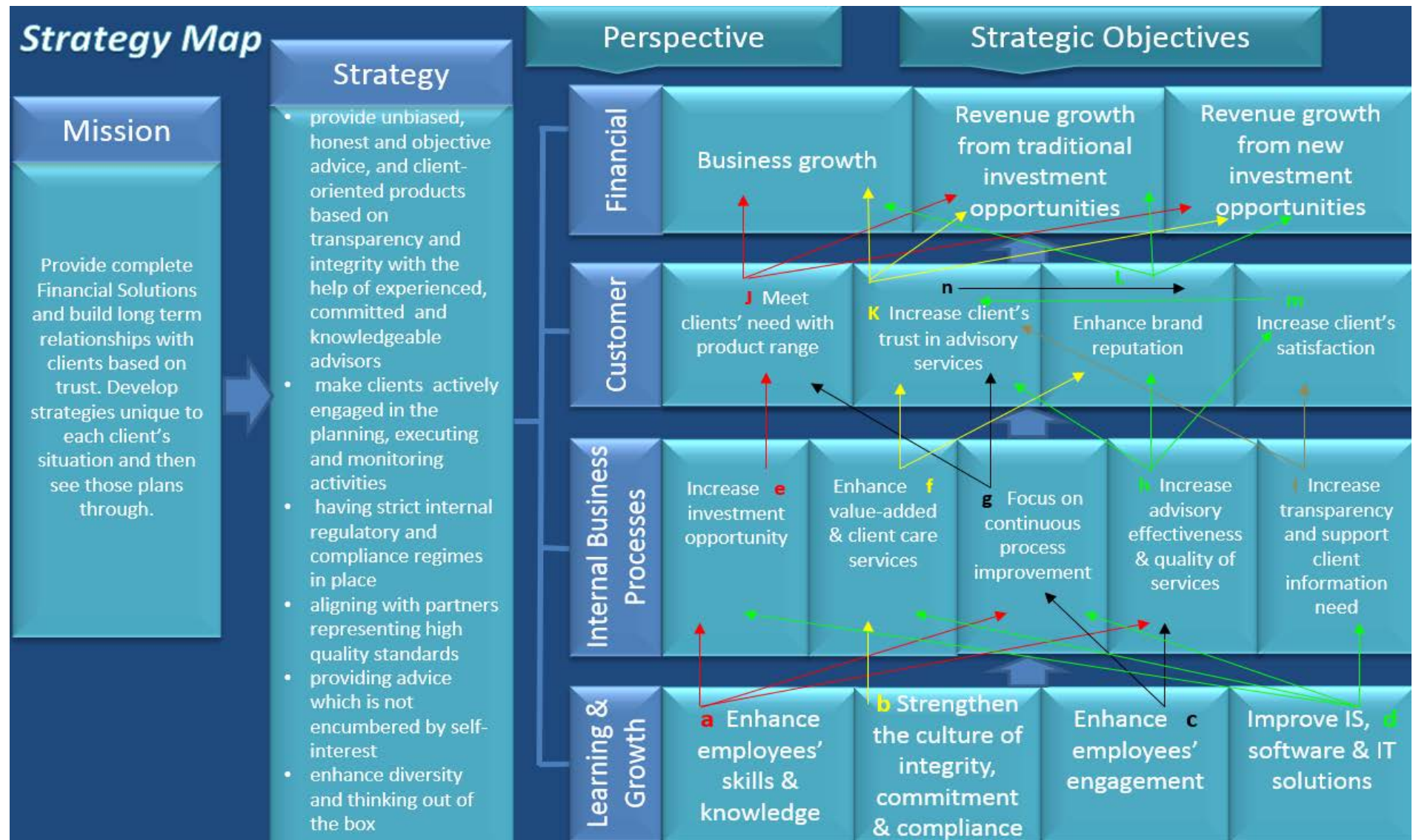


Figure 1 Platinum's Strategy Map



### 4.3 Platinum's Balanced Scorecard: Strategy, Objectives, Measures and Targets

In this paragraph Platinum's Balanced Scorecard is developed to demonstrate that how the company delivers more value to clients by improving the efficiency and effectiveness of the execution of Platinum's current strategy introducing the Balanced Scorecard tool. Moreover, how Platinum can improve advisory efficiency for the purpose of effectively handling the changes in the financial advisory industry which affect Platinum's current advisory services and strategies as well. Therefore, this paragraph gives the answer for the fourth sub question that how can Platinum apply the Balanced Scorecard to improve its current advisory and consulting services to effectively adapt to changes and respond to the challenges of the financial advisory industry. As discussed in Chapter 3 regarding Methodology and in the beginning of this chapter, desk research and archival research as well as observation are used to collect all relevant data and information required to develop Platinum's Balanced Scorecard. At first, the company's mission and strategy are described. After that, measures and targets are assigned to the strategic objectives identified in Platinum's Strategy Map. Finally, Platinum's Balanced Scorecard is developed.

#### 4.3.1 Platinum's Mission and Strategy

As highlighted and briefly described also on Platinum's Strategy Map, the company's mission is to "provide complete financial solutions and build long term relationships with clients based on trust." Moreover, to "develop strategies unique to each client's situation and then see those plans through" (BCG, 2015). In order to achieve its mission, the company strategy is: "combining core traditional values of excellent service and sound independent financial advice with innovative client-oriented products and services." (Platinum, 2016).

Platinum provides unbiased, honest and objective advice, and client-oriented products with the help of experienced and knowledgeable advisors. In order to clients feel their investments are



safe, advisors make them actively engaged in the planning, executing and monitoring activities. Moreover, the company maintains secure client records and eliminates any conflict of interest. Having strict internal regulatory and compliance regimes in place and by aligning with partners representing high quality standards, Platinum aim is to secure clients' wealth and develop services that built on trust, transparency, commitment and integrity which help to create high customer satisfaction and loyalty as well as increase customer referral. Furthermore, the company is focusing on to develop customized financial strategies that fit to the client's situation, risk appetite and investment goals. Each client is unique and they are the company's first priority, therefore Platinum is providing advice which is not burdened by self-interest. Platinum enhances diversity and thinking out of the box, and respects and values differences of ideas and opinions (Appendix D-1, Q30).

#### 4.3.2 Learning & Growth Perspective

The perspective focuses on how the company can improve, innovate and create value in order to achieve its strategic goals and mission (Kaplan & Norton 1992). Moreover, it describes the organization's intangible assets required to support the strategy (Kaplan & Norton, 2004).

##### *Enhance employees' skills and knowledge*

With the objective of enhancing employees' skills and knowledge, Platinum's aim is to increase knowledge advisors have about existing and new financial products, rules and regulations, policies information systems and various IT solutions. It is measured by the number of training session provided by the representatives of Platinum's partners whose job is to continually educate the financial advisory firms on their product range, policies, rules and regulations, digital solutions, changes and updates. The training sessions provided quarterly, but in order to achieve its objective, Platinum has increased the frequency of the quarterly training to monthly (Appendix D-1, Q20). Therefore, Platinum can effectively execute its strategies of providing client-oriented products and objective advice with the help of



knowledgeable advisors, securing client's wealth and developing customized financial strategies that fit the client's situation and investment goals. For these reasons, the company also can better handle the challenges of increasing competition, regulatory requirements, clients' expectation, the complexity of investments and technological changes.

As demonstrated on the strategy map (arrows a), enhancing employees' knowledge and skills more with frequent training session enables advisors to increase the number of investment opportunities offered to clients as they have more information about existing and the new investment products. They are more confident to offer more complex investment opportunities that were previously less known and understood. Furthermore, as the strategy map shows (arrows a), increased knowledge and skills enables Platinum to focus on continuous process improvements and offer more services electronically as well as increase advisory effectiveness. Higher quality services can happen by decreasing the number of issues that arise regarding regulations and policies, as the advisors have the latest and updated information on the policies, regulations and technological improvements.

*Strengthen the culture of integrity, commitment and compliance*

Platinum wants to motivate advisors to be more transparent about the investments, and become an example of honesty and integrity which will then improve clients' due diligence. There will also be an emphasis on supporting all clients- including those from competitors- regardless of the level of commission. In addition, Platinum wants to highlight that providing advice in the client's best interest without self-interest can generate much more long-term benefit. The objective is measured by the number of training provided by Platinum regarding client behaviour, value-added services and expected morally ethical advisory behaviour. In order to achieve its objective, the company can increase the frequency of its training sessions from semi-annually to quarterly (Appendix D-1, Q20). Therefore, Platinum can improve the execution of its strategies to secure clients' wealth, develop good services and customized



financial strategies that are not hampered by self-interest. Thus allowing the company to more effectively focus on its mission of building long-term relationships based on trust. This will place the company in a strategic position to effectively handle the challenges of increasing competition and growing client expectations.

The strategy map shows (arrow b) that a strong culture of integrity, commitment and compliance helps enhance value-added and client care services, thus, increasing meetings and communication with the clients. Advisors more committed to protect clients' investments and actively engaged them in the investment related activities while at the same time looking out for new investment sales, contact and networking opportunities.

#### *Enhance employees' engagement*

The objective of enhancing employees' engagement is identified to increase advisory collaboration, information flow, advisors knowledge and new ways to motivate service improvement, efficiency and effectiveness. It is measured by the number of brainstorming sessions which are provided quarterly, but the company wants to increase the frequency to monthly (Appendix D-1, Q31). Platinum's advisors can share relevant and useful information on particular issues, products, and special cases to better serve clients. Effectively discussing the company's strategies regarding the development of client-oriented and objective financial strategies, with knowledgeable advisers, increases creativity and commitment. Platinum can successfully handle the industry challenges of the increasing complexity of investments, client's expectations, regulatory requirements, and increased competition with informed advisors acting as a team.

The strategy map demonstrates (arrows c), that the objective of enhancing employees' engagement enables the company to better focus on continuous process improvement and increase advisory effectiveness and the quality of services as advisors have more information



on the availability and the effectiveness of automated and digital services and how to use these new technological solutions.

*Improve information systems, software and IT solutions*

Platinum wants that advisors recognize the role of digital technology in the company's advising processes and engage with clients and professionals via online social networks. It is measured by the number of new digital and IT solutions implemented in the company. Platinum is using two types of IT solutions such as the providers' fund platforms and online quote services (Appendix D-1, Q16, 22). The company wants to implement and use 5 new IT and digital solutions including an online switch form (which can be approved by online signature), providers' apps and online application documents. It will also add a Navglobal fund platform where most of the providers' funds are listed, a Leonteq platform for automated investment solutions (such as structured notes), and various online social networks (Appendix D-1, Q 12, 16, 18, 35). Platinum can effectively execute its strategies of providing client-oriented services and aligning with partners representing high quality standards. It will also help to secure clients' wealth and involve them in the investment processes to make them feel that their investments are safe. The company can also successfully face the industry challenges of increasing technological changes, competition and client's expectation as well as regulatory requirements.

The strategy map shows (arrows d) that the objective of improving information systems, software and IT solutions enhance the number of new investment opportunities by making it easier for an advisor to create structure notes for clients and collect and represent information on funds. It also enhances (arrows d) value-added and client care services, and more focus on continuous process improvement as well as increased transparency and the support of client's information need. The increasing use of online social networks, online applications and electronic documentations result in more frequent and advanced meetings and follow ups with



clients, better and more detailed representation of financial products and fewer errors in documentation due to control processes.

#### 4.3.3 Internal Business Processes Perspective

The perspective focuses on what the company needs to excel in order to meet clients' expectations. Furthermore, it focuses on and measures those internal operations which have the greatest impact on clients' satisfaction in order to be able to meet the client's needs. (Kaplan & Norton, 1992).

##### *Increase investment opportunities*

With the objective of increase the investment opportunities, Platinum's aim is to offer more of a variety of products that will meet clients' needs and satisfy the regulatory requirements regarding diversification as well as create competitive advantages (Appendix D-1, Q6). Therefore it can execute its strategies of providing customized financial strategies, using innovative thinking and complying with Hong Kong's rules and regulations. The company also can meet the industry challenges of increasing client's expectation, competition and regulatory requirements. The objective is measured by the number of variety of investment products offered by Platinum. The company is providing 8 different categories of products including life plans, critical illness coverage, fund investments, S&P 500 Index investments, life insurances, health insurances, disability plans and property investments (Appendix D-1, Q21). Platinum wants to increase the variety of investment opportunities by adding 5 more categories including property and land investments (which will be offered in several countries), wine investments, plantations such as investment in agarwood, and digitally created and customized structured notes (Appendix D-1, Q36, 35).

As demonstrated on the strategy map (arrow e), the objective of increasing the investment opportunities helps to meet client's need in regards to investment product range and increased



customer base as the company attracts more clients who are looking for alternative investment opportunities.

*Enhance value-added and client care services*

With this objective, Platinum wants to motivate advisors to look after client's investments, increase the frequency of meetings and interactions with clients to build stronger relationship and trust and look for new connections and sales opportunities. The objective is measured by the frequency of meetings and follow up. The advisors have meetings with fund investors monthly and with the rest of the clients semi-annually unless some issues or special events occur. Platinum wants advisors to have contact with clients at least quarterly to improve customer care services (Appendix D-1, Q9). The most difficult task is to find a new client, therefore advisors can benefit from providing high quality value-added, client-oriented services as clients more likely will invest in other products and refer the company to other investors. Therefore, Platinum can better handle the industry challenges of increasing competition and client expectation.

The strategy map shows (arrows f) that the objective of enhancing value-added and client care services by increasing the frequency of interactions with client increase the client's trust in advisory services resulted in repeat businesses. Furthermore it enhances (arrows f) brand reputation resulted in increased number of referrals.

*Focus on continuous process improvements*

Platinum's aim is to increase automation including electronic documentation and online services and communication to improve advisory efficiency, information flow and interactions as well as establish internal control. It is measured by the number of services provided electronically. Platinum is providing two services electronically including short lists and online quotes created on the providers' platform (Appendix D-1, Q13, 22). The company wants to increase the number of services provided electronically by using online application forms and switch forms and providers' online apps to demonstrate financial products to clients.



Furthermore, Leonteq's platform can help to create customized digital structured notes, and the online social networks to interact with clients and professionals (Appendix D-1, Q12, 18, 35). The company can decrease the time required to rebalance the fund portfolios and fill in the application forms due to the digital authorization and signature, and the control procedures assigned to the form completion. Moreover, clients can better understand the investment products as they are demonstrated in a more advanced way by using a providers' app. Advisors can also fulfill the demand of structured notes by using Leonteq platform which helps to create customized notes and provide detailed and transparent explanation. Online social networks enhance more effective and advanced interactions and communications. This can help Platinum to provide excellent services by with partners representing high quality standards and meet the industry challenges of increasing technological changes and competition as well the as complexity of investment.

The strategy map demonstrates (arrows g) that continuous process improvements help to meet clients' need and increase the number of investors by offering a wider variety of product range. Soon advisors will become more confident to offer and present more complex investment opportunities such as structured notes. Moreover, the objective also enhances (arrows g) increased client's trust in the advisory services as the electronic documentation enables limited errors compared to the paper version while the online social networks enables to establish strong relationships with clients which leads to new investments.

*Increase advisory effectiveness and quality of services*

The objective is identified to decrease errors and other problems regarding to rules, regulations and policies by analysing and taking to consideration all the small details of the investments. Moreover, to prevent issues regarding to clients' due diligence, demonstrate transparency and integrity and spend more time with clients to educate them on the terms and conditions of the investments and what outcomes they can expect in various circumstances and situations



(Appendix D-1, Q 27, 28). The objective is measured by the number of problems which arise regarding due diligence, policies, and regulations. In average, each advisor has between 2-4 issues a year (Appendix D-1, Q29). The company wants to eliminate one third of these issues over a 1 year period, which means, a decrease in the number of issues from 14 to 9. Therefore, Platinum can secure client's wealth and provide quality services that built on trust, transparency and integrity to meet increasing client's expectations, regulatory requirements and complexity of investments.

The strategy map shows (arrows h) that achievement of the objective enhances the increase of clients' trust and satisfaction and enhances brand reputation. Therefore, the number of complaints will decrease, clients will refer the company to other investors and be more likely to invest again.

*Increase transparency and support client's information need*

Platinum wants to be more transparent regarding to the information provided on investments to make sure that clients receive and understand all the required and necessary data, facts and figures. Moreover, increasing regulatory requirements and clients' expectations also require advisors to provide more transparent services. The objective is measured by the number of documents adjusted to enhance transparency. Platinum is using two outdated reports and documents which provide insufficient information and the data recorded in the documents is not clear enough, therefore, clients do not understand them. These documents are the shortlists and switch forms discussed in the problem identifications. The company wants to create new short list to provide more detailed information on the fund portfolio. (Appendix D-1, Q14). Therefore, clients can better understand the results of the monthly report and how their portfolio is performing. The switch form is a very important document as it used to change the structure of the portfolio and the outcome of the whole investment. Therefore, the adjusted and more transparent version of the form provides sufficient information on clients' investments, like;



what kind of changes should be made and why (Appendix D-1, Q12). More transparent documentations helps to involve clients in the investment activities and advisors can provide services that built on trust, transparency and integrity. Moreover, using the new reporting forms, Platinum can handle the industry challenges of increasing regulatory requirements and client's expectation.

The strategy map shows (arrows i) that if Platinum effectively serves clients' information need and provides more transparent reporting, it increases customer satisfaction as clients understand their investments and less likely to complain about the outcomes while at the same time they trust more in the company's advisory services.

#### 4.3.4 Customer Perspective

The perspective focuses on that how the company is performing from the customer perspective (Kaplan, Norton, 1992). It identifies targeted customer segments in which the business competes and measures the company success in these segments (Kaplan & Norton, 2004). Therefore, the objectives are also outcome measures which are affected by the appropriate use of intangible assets in the learning and growth perspective and the effectiveness of value creation processes in the internal business process perspective.

##### *Meet client's need with products range*

Platinum wants to provide customized and client-oriented products and services by developing a product range that meets the target customers' needs. To measure the success of achieving client's expectation and demand, Platinum counts the number of new clients invested in the company's products. Due to the increased number of new products Platinum is going to offer, the company wants attract more investors and increase its client base by 50 new clients. Thus, increase the number of customers from 250 to 300 (Appendix D-1, Q5). As the strategy map shows (arrows J) the increased number of new investors have positive effect on the company's business and revenue growth.



*Increase client's trust in advisory services*

By achieving its strategic objectives in the learning and growth, and the internal business process perspectives, Platinum can achieve its service trust related objective and better focus on its mission of building long-term relationship based on trust. It is measured by the number of new investments made by old clients. Platinum expects 10% increase compared to the previous performance of 20%, which means, that the goal is that 30% of the total investments in financial products made by old clients (Appendix D-1, Q33). When clients trust the company's advisors and services, they more likely will invest in other investment products which (looking at the strategy map and arrows k) result in business and revenue growth.

*Enhance brand reputation*

It represents how the clients view the company in regards to credibility and the consistency of providing the promised and expected services. Therefore, clients' referrals are the best advertisement for Platinum. In order to increase brand reputation, Platinum needs to achieve its goals regarding to providing high quality, customized, value-added and client care services based on transparency, integrity and commitment and compliance. It is measured by the number of client referrals. Last year, Platinum counted 20 referrals which all turned into business and the company expects that this number increase by three referrals per advisor: in total of 12 referrals. Therefore, the company's target is 32 referrals. The strategy map shows (arrows L) that the enhanced brand reputation can increase business and revenue growth.

*Increase client's satisfaction*

It is measured by the number of client's complains. A few complaints related to portfolio performance and most of the complaints related to rules, regulations and policies. More specifically, to client's due diligence and advisors transparency and knowledge about the financial products. Platinum's aim is to decrease clients' complaints by achieving its goals in the learning and growth and internal business processes perspectives. The target is to decrease complaints by 50%. Last year, Platinum received 16 complaints which from two were



dissatisfaction regarding to portfolio performance and not advisory services. Therefore, the company wants to decrease the number of complaints from 16 to 9 (Appendix D-1, Q6).

There are also horizontal cause-and-effect relationships between the customer outcome measures (arrows m and n). As demonstrated on the strategy map, the increase of client's satisfaction measured by the decreased number of complaints enhances (arrow m) the clients trust in advisory services measured by the new investments made by old clients which also leads (arrow n) to enhanced brand reputation, thus client's referrals.

#### 4.3.5 Financial Perspective

The financial perspective focuses on that how the company should look financially to shareholders (Kaplan & Norton, 1992). Financial performance measures indicate whether a company's strategy, including its implementation and execution, is contributing to bottom-line improvement (Kaplan & Norton, 2004).

##### *Business Growth*

The objective is measured by asset under management. Increasing the number of new clients who invest in financial products and increasing the number of investments made by old clients will increase the asset under management. Platinum manages assets about of \$84, 000,000 and it sets a target of 10% increase over a year to \$92,400,000 (Appendix D-1, Q30).

##### *Revenue growth from traditional business opportunities*

It is measured by the revenue generated from traditional investment products. New clients and the new investments of Platinum's existing clients increase revenue growth. The company's revenue is \$5,000,000 which from around 70% , thus \$3,500,000 is generated by selling traditional investment products such as fund investments, S&P 500 index, life plan, critical illness and disability cover, life and health insurance. Platinum keeps focusing on the sales of the existing traditional investment product, therefore the company estimates 10% increase in sales revenue over a year. Therefore, the target revenue is \$3,850,000 (Appendix D-1, Q30).



*Revenue growth from new investment opportunities*

30% of Platinum's revenue, thus \$1,500,000 is generated from alternative investment such as properties. Due to the increasing demand, regulatory requirements and competition, the company is planning to offer more variety of products under the alternative investment category and increase the property investment opportunities. Therefore, Platinum estimates 14% increase in these investments made by new and existing clients. Therefore, the new target is \$1,710,000.

The Balanced Scorecard (BSC) management system manages the executing of the company's strategy by translating strategy into action (Kaplan & Norton, 1996). Moreover, it translates the company's strategic objectives into performance measures by using linked performance measures based on four perspectives including financial, customer, internal business processes, and organizational learning and growth (Kaplan, 2010). It communicates the company's strategy and what Platinum is trying to achieve.



## 4.3.6 Platinum's Balanced Scorecard



Figure 2 Balanced Scorecard



## Chapter 5: Conclusion, Recommendation & Limitations

### 5.1 Conclusion

Concluding requires to answer the main research question: How can Platinum improve its current advisory and consulting services to effectively adapt to changes and respond to the challenges of the financial advisory industry by using the Balanced Scorecard approach?

The balanced scorecard is a strategic planning and management system that is used to align business practices to the overall mission and strategy of the organization, improve communications, measure intangible assets and monitor the effective execution of the company's strategies using linked financial and non-financial measures identified in these four perspectives: Financial, Customer, Internal Business Processes, Learning and Growth. Platinum has several non-standardized processes and intangible assets which are crucial regarding strategic success and competitive advantages. The use of the Balanced Scorecard focus on the company's overall strategy thus, Platinum's management will be able to monitor and insure that advisors are providing excellent client-oriented financial services with high quality standards. It measures and in the four perspectives enhances financial objectives and economic value added long term goals. Therefore advisors remain committed to the best practices associated with successfully managing their client's investments which create trust and long-term relationship.

In order to improve advisory services, Platinum mission & strategies are analyzed. Then, looking at the identified problems and relating them to Platinum's strategy, the strategic objectives are identified in the four perspectives using the strategy map which is the visual representation of the cause/effect relationships with the help of arrows on the map. The map describes, captures and communicates Platinum's overall strategy and what goals the company needs to achieve in each perspective to successfully manage and execute its overall strategy.



Then the Balanced Scorecard is created by assigning measures and targets to the strategic objectives identified in the strategy map. The company can then monitor and evaluate how well the strategy plan is executing.

As the company is able to better measure, evaluate and improve its intangible assets regarding knowledge, integrity, commitment, compliance and innovation in the learning and growth perspective; it increases the efficiency and effectiveness of its value creation processes regarding investment diversity, continuous improvements, transparency and client care, quality services in the internal business processes perspective. This results in increased customer loyalty, trust and satisfaction as well as enhanced brand reputation in the customer perspective, and increased business and revenue growth in the financial perspective. Regardless of the company's highly customized services and several non-standardized processes, the balanced scorecard applied for Platinum services clearly shows how to focus on the main problems of the company services and strategy execution which raised due to the industry changes and challenges by looking at the company's overall strategy. Furthermore, it shows how to improve the company's services by identifying strategy related drivers which then translated into measures and targets enabling Platinum the evaluation of its advisory services and strategies.

### 5.2 Recommendation

Current industry changes are broad and imposing. Moreover, during the assessment of Platinum's services different problems emerged as significant detriments to the company's ability to both handle the successful execution of company strategy and industry challenges. It is certain that a good way to solve the problems, would be to implement Platinum's Balanced Scorecard to spotlight these problem areas and make sure that the company strategies are successfully executed. For this reason, and because of Platinum does not have any management control and performance measure approaches in place, the paper recommends the actual



implementation of the described and demonstrated Balanced Scorecard applied for Platinum's financial services. Implementing the Balanced Scorecard enables Platinum to evaluate and monitor its current advisory services, improve advisory efficiency and effectiveness by focusing on strategy execution, and successfully adapt to the changes and challenges in the advisory industry to remain well positioned and continue to succeed in the future.

Further research is required by Platinum to analyse and examine the effectiveness of the implemented Balanced Scorecard and whether or not the company was able to achieve its objectives by reaching the targets of the assigned measures. Thus, to evaluate the company's performance regarding effective strategy execution and increased advisory efficiency and effectiveness. Furthermore, to analyse that how successfully Platinum faced the advisory industry challenges.

Moreover, further research is recommended to examine whether Platinum focused on the right area of problems and therefore strategic objectives with the cause- effect linkage between them in place, and used the optimal number and right measures; or adjustments are required in Platinum's balanced scorecard to achieve the desired outcomes and improve its current advisory and consulting services to effectively execute the company's strategy, adapt to changes and respond to the challenges of the financial advisory industry.

### 5.3 Limitations

Platinum cannot improve the efficiency and effectiveness of their financial services when viewed from two identifiable areas of limitation; standardization of advisory processes and commissions, received by advisors.

Lack of standardization of the administration processes which are created and required by the providers. The number of providers with different (non-standardized) administration procedures is overwhelming. Each provider has their own conditions, terms and policies



regarding documentation and administration which is not efficient and standardized and cannot be solved by Platinum due to the fact that this is out of their hands.

As the advisors are directly paid their commissions at the front of the investment by the providers. Certainly advisory effectiveness and customer relation would be improved by yearly or bi-annual payment of commissions but, this too is controlled by the providers who continue to pay the commission upon sale of the product. Platinum has no say in the agreement and indeed the payments are disbursed directly to the advisor who, once paid, has less incentive to handle the longer term investments with the care and attention that would result in more customer satisfaction and more referrals.

Therefore if the research would create objectives in the BSC to solve these problems to increase efficiency and effectiveness the scorecard would not be effective because it cannot be achieved by Platinum. The research took this into consideration and was purposely guided toward objectives regarding more actionable areas of training, and new technology usage to decrease the regulatory administrative work required by governments and providers, and promote more transparency.

As the identified strategic objectives of Platinum's Balanced Scorecard can be successfully achieved by reaching the targets assigned to the scorecard measures, the created scorecard for the company demonstrates that it is an effective tool to monitor, evaluate and improve effective overall strategy execution by highlighting specific areas require greater attention and focusing on to improve them.



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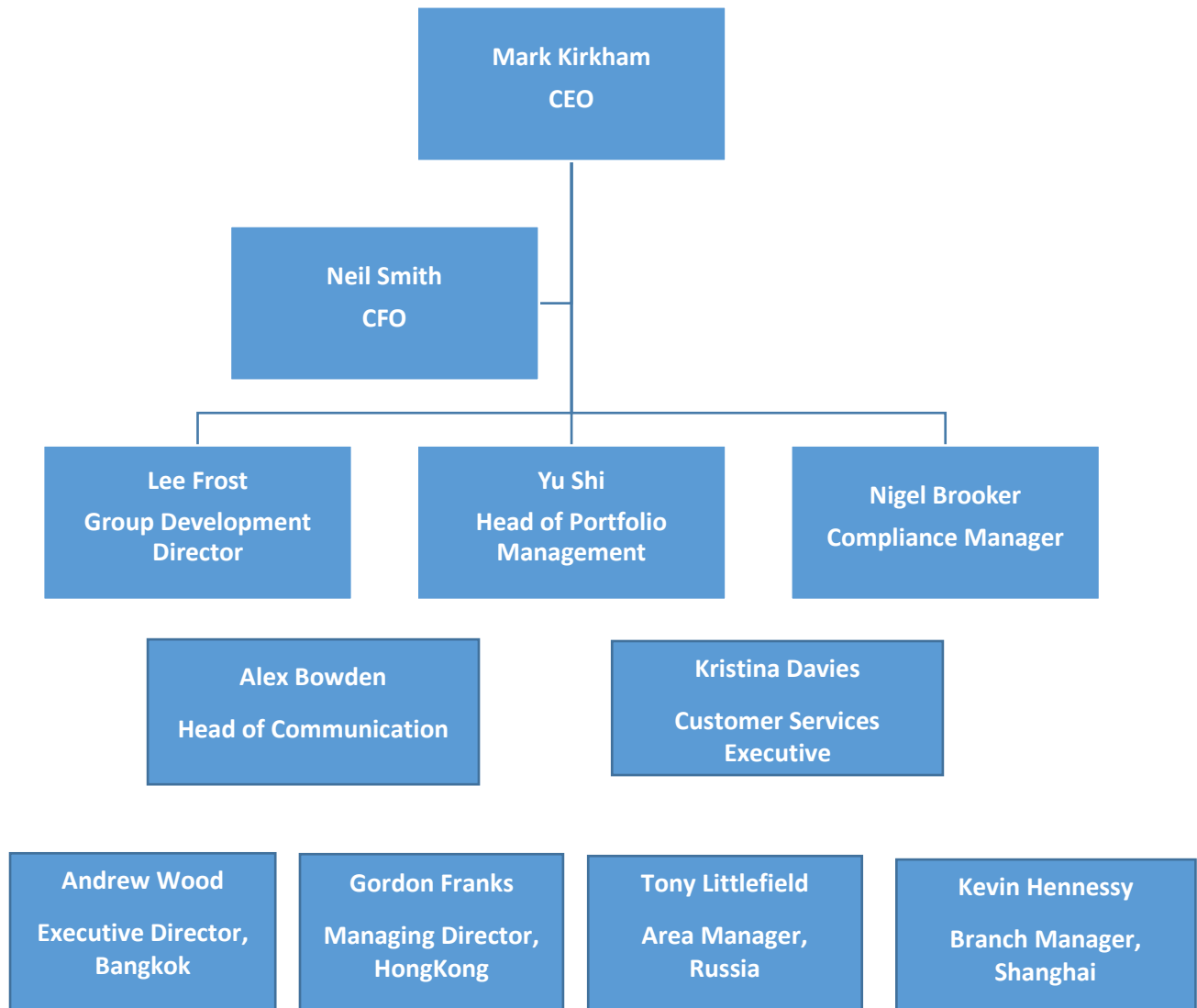


## Appendices

### Appendix A:

#### A-1: BCG Organizational Structure

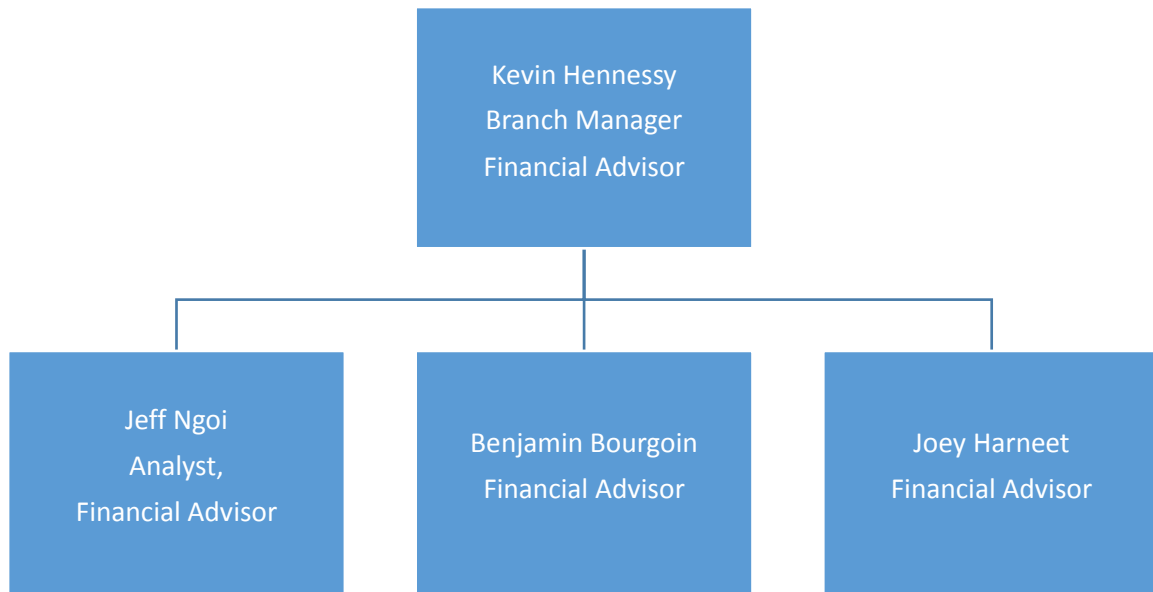
Source: BCG (2016). *Our Team*. Business class Group.com. Retrieved March 28, 2016 from <http://www.businessclassgroup.com/our-team.php>





## Appendix A

### A-2: Platinum Financial Services Limited Organizational Structure





## Appendix B:

### B-1: Asset under Management

Source: Boston Consulting Group. (2015). *Sparkling Growth with Go-to-Market Excellence*. Global Asset Management 2015. Retrieved March 29, 2016 from [http://www.bcg.com.cn/en/files/publications/reports\\_pdf/BCG\\_Sparking\\_Growth\\_with\\_Go-to-Market\\_Excellence\\_July\\_2015.pdf](http://www.bcg.com.cn/en/files/publications/reports_pdf/BCG_Sparking_Growth_with_Go-to-Market_Excellence_July_2015.pdf)

**Figure 1**

Assets under Management Rise to a Record \$74 Trillion

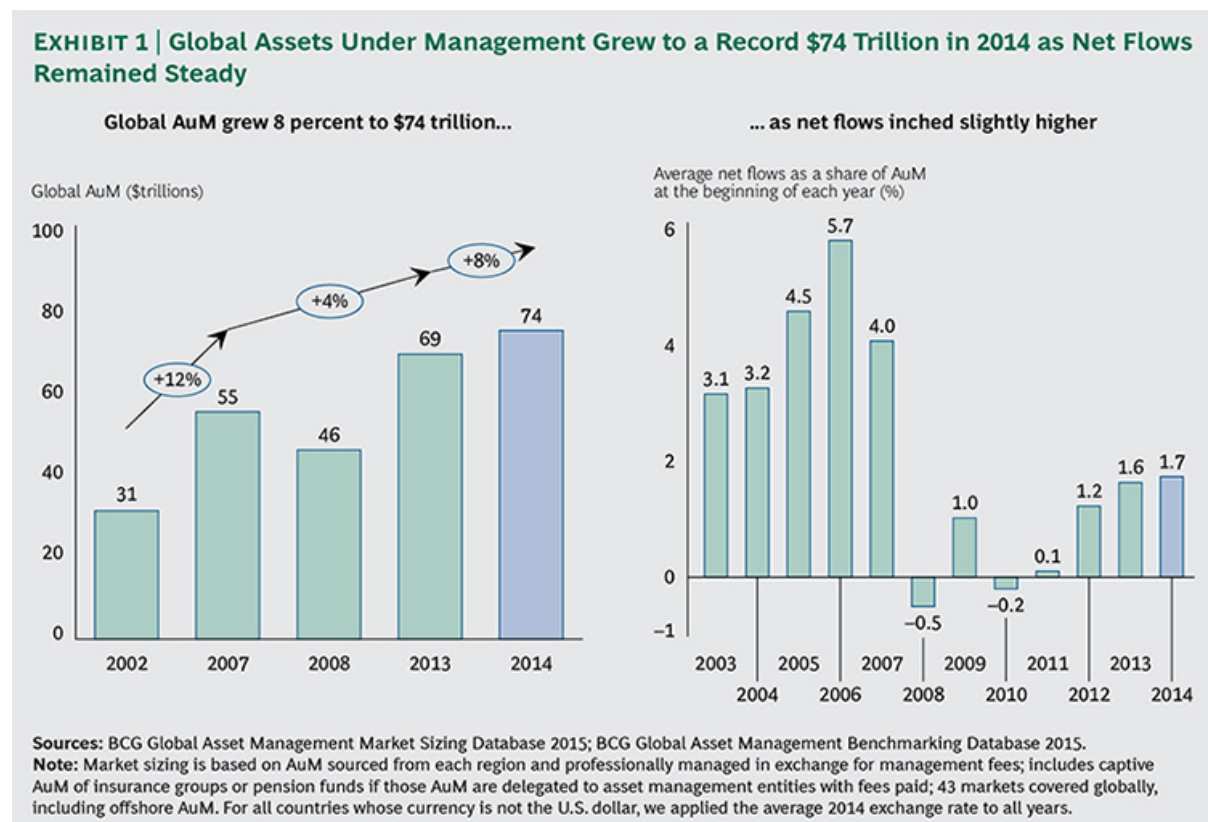
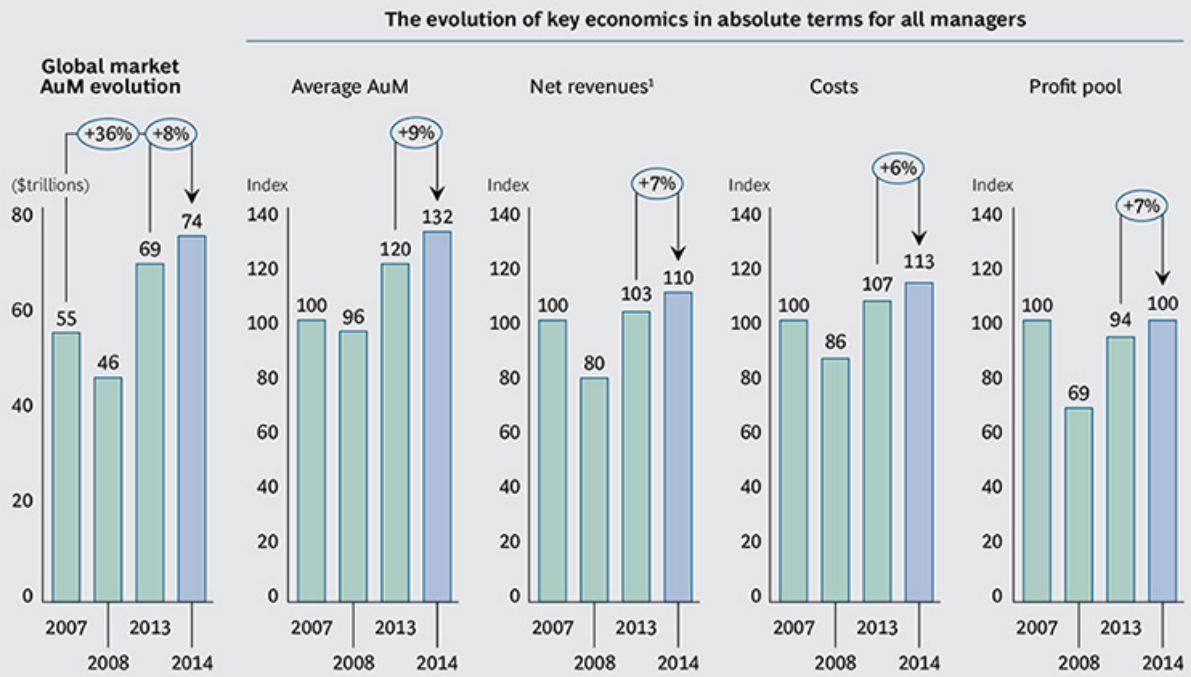




Figure 2

### EXHIBIT 2 | The Global Profit Pool Returned to Its Precrisis Level, Driven Largely by Growth of Average AuM



Sources: BCG Global Asset Management Market Sizing Database 2015; BCG Global Asset Management Benchmarking Database 2015.

Note: Values are based on fixed year-end 2014 exchange rates.

¹Management fees net of distribution costs.



## Appendix C:

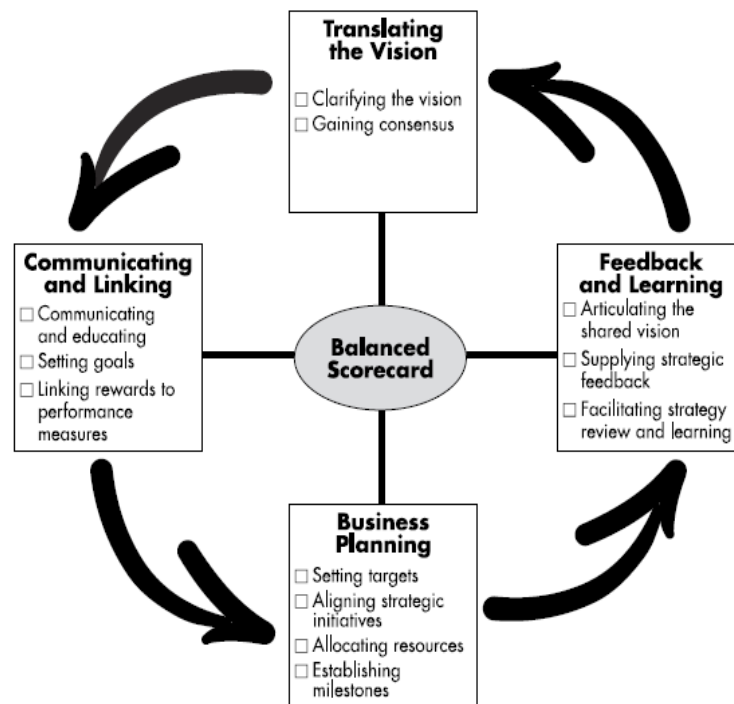
### C-1: Traditional Budgeting: Summary of Characteristics

| TRADITIONLA BUDGETING  |   |  |
|--|---|--|
| Characteristics  | Advantages  | Disadvantages  |
| Driver and evaluator of managerial performances  | Coordinate financial activities                                     | Evaluate and monitor performance only form one perspective which is financial: Measures and targets are only financial in nature |
| Control functions  | Communicate financial expectation                                   | Encourage short-term goals such as cost savings and do not emphasise long-term strategies and value creation                     |
| Planning function  | Allocate resources  | Do not take into consideration whether the company's strategy effectively executed or not  |
| Important element of financial results control system  | Reward managers for achieving the planned targets                   | Strategic planning and budgeting are not linked  |
| Can be prepared based on historical results, negotiation, using top-down or bottom-up approach | Provide a standard used to judge organizational success or progress | Top down method decrease employees' motivation   |
|  | Convert managers' vision into an organized set of tactics           | Negotiation and bottom-up approach enhance game playing which create underperformance in long-term                               |
|  | Assign and distribute accountability and responsibility             | Do not motivate the managers to act in the best interest of the organization   |
|  |   | Do not enable to have an overview of the overall performance of the operational processes  |
|  |   | Do not measure and evaluate the companies' intangible assets   |
|  |   | Time-consuming   |



## C-2: Managing Strategy: Four processes

Source: Kaplan, R., Norton, D. (1996, January). “Using the balanced scorecard as a strategic management system,” Harvard Business Review. January-February 1996a, pp. 75-85. Retrieved 18, February, 2016 from <https://labcalidad.files.wordpress.com/2013/02/oil.pdf>



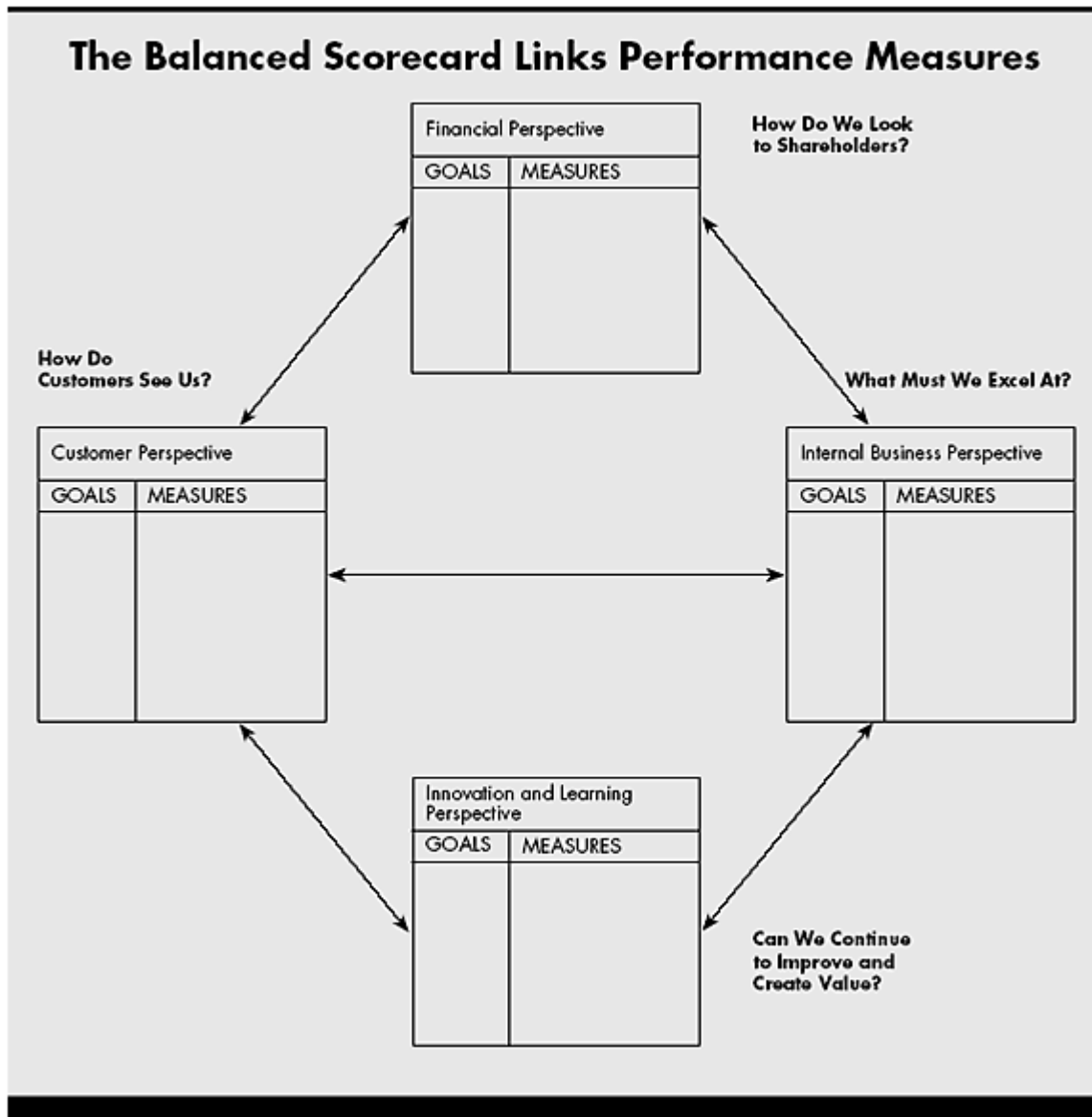


### C-3: Linked performance measures in the Balanced Scorecard

Source: Kaplan, R., Norton, D. (1992). *The Balanced Scorecard. Measures that drive performance.*

Harvard Business Review. January-February. Retrieved 24 February, 2016 from

<http://www.csus.edu/indiv/s/sablynskic/documents/balancedscorecard1992kaplanandnorton.pdf>





#### C-4: Relationship between Nonfinancial and Financial Controls

Source: Carpenter, M., Bauer, T., Erdogan, B. (2016). Principles of management. V.1.0: *The Strategy Map: A Causal Relationship between Nonfinancial and Financial Controls*. Figure 15.11.

Flat World Education Inc. Retrieved 4 April, 2016 from

[http://catalog.flatworldknowledge.com/bookhub/5?e=carpenter-ch15\\_s06](http://catalog.flatworldknowledge.com/bookhub/5?e=carpenter-ch15_s06)





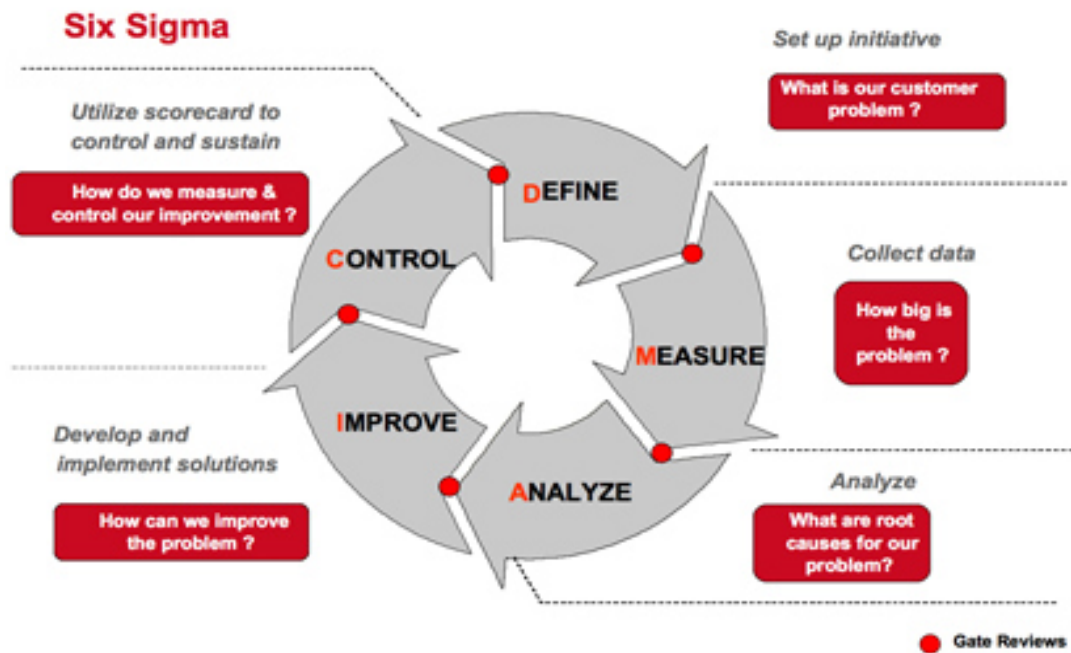
## C-5: Balanced Scorecard: Summary of Characteristics

| BALANCED SCORECARD  |  |  |
|---|--|--|
| Characteristics   | Advantages   | Disadvantages  |
| Translate the company's strategic objectives into performance measures  | Focus on the effective execution of the processes which are crucial to strategic success   | Implementation can be difficult and time-consuming   |
| Use linked performance measures based on four perspectives including financial, customer, internal business processes, and organizational learning and growth | Communicate and link strategic objectives and measures, plan and set targets   | Not effective if there is a lack of long-term commitment or the strategy has changed during implementation                                       |
| Focus on how the company can improve, innovate and create value in order to achieve its strategic goals and build competitive advantages                      | Enhance strategic feedback and learning  | The performance targets can be negotiated to make them easily achievable which can create underperformance                                       |
|   | Complement the financial measures of past performance with measures of drivers of future performance                               | Not effective if the company does not apply an optimal number of measures or the correct measures and they do not link to the company's strategy |
|   | Ensure the alignment between financial and nonfinancial measures   | Does not focus specifically on competition and some other external aspects   |
|   | Enable the management and measure of intangible assets   |  |
|   | Create a balance between the performance measures of the four perspectives   |  |
|   | Help optimize information flow by limiting the measures used to focus on the most important areas which require specific attention |  |
|   | Help communicate the strategy and what the company is trying to achieve at all levels of the organization                          |  |
|   | Link rewards to performance measures and economic value added, long-term goals as well   |  |
|   | Flexibility and adaptability: enable organizations to integrate other performance improvement tools and techniques                 |  |



C-6: The DMAIC model

Source: Sai Global (2016). Improvement solutions. Process Improvement. Six Sigma. Retrieved 4 April, 2016 from <https://www.saiglobal.com/business-improvement/solutions/process-improvement/six-sigma/>





## C-7: Six Sigma: Summary of Characteristics

| SIX SIGMA  |  |   |
|--|--|---|
| Characteristics  | Advantages   | Disadvantages   |
| Management methodology and framework that focuses on achieving performance excellence by reducing defects in any processes | Find defects in the process and find a solution to eliminate them while improving the performance of the processes | Implementation is costly and time-consuming   |
| Quality and performance management tool  | Optimize and improve the business processes and eliminate defects  | Require hard work and dedication from employees, especially to receive a higher level of Six Sigma certification  |
| It has five stages called DMAIC to solve operational related issues  | Monitor the process management of the company  | Require companies to redesign all their operations and change company culture which also require long-term commitment   |
| Focus on the customers   | Use financial and non-financial measures   | Only customer-focused   |
| Process oriented and data driven   | Identify inefficiencies and root cause of the problem  | Do not work for every service companies and processes   |
| Applied to all business processes and projects which are analysed and improved separately                                  | Decrease process variation   | Difficult to measure and quantify that which service processes matter most to the customer  |
|  | Focus on separate projects   | Service quality is more difficult to evaluate than product quality  |
|  | Reduce operational costs and increase productivity and efficiency  | Harder to collect data in service companies and harder to measure   |
|  | Find the most efficient way to perform the processes   | Data collection and statistical calculation is based on customer experiences which can be varied due to different circumstances while the company is providing the same service |
|  | Enhance process discipline and control   | The cost may outweigh the benefit for service organizations   |
|  | Create a culture of continuous improvement   | Do not look at the whole process just parts of it where improvement techniques applied  |
|  | Encourage training and education at all levels of the organization   | It is difficult to implement where there are highly customized and non-standardized processes   |
|  | Enhance total cooperation in the company   |   |



## Appendix D:

### D-1: Interview Transcript

#### *Group Interview 1*

*Participants: Kevin Hennessy (branch/country manager, advisor), Benjamin Bourgoin (Advisor), Joey Harneet (advisor), Jeff Ngoi (analyst, advisor).*

**Q1: One of the main challenges of the financial advisory industry are the increasing rules and regulations. How does it affect Platinum's services?**

The increasing rules and regulations make the services more complex and complicated which require advisors to gather more information, gain more knowledge and get more training. They need to have the latest and updated information to effectively serve the clients. There are changes all the time. For example, the financial products offered take into consideration the country of residence and nationality, therefore, the advisors need to know whether or not the client is eligible to purchase the product. If your country of residence is The Netherlands, you are not eligible to invest in any products of Royal London, one of our biggest provider. The reason is that the company is located in the Man of Isle, therefore, based on the EU law, no one with EU country of residence is eligible to invest. You are also not eligible to purchase at least one of our health insurance products due to Dutch regulation. Moreover, you cannot purchase most of the products of Friends Provident if your nationality is Hungarian or Russian among many other nationalities. There are several issues regarding American nationality as well. We have various providers, therefore, in these situations, we look at the products of other companies. These are just two examples of many that the advisors need to take into consideration to effectively comply with existing rules and regulations when providing advice.

The regulations also require advisors to be more transparent, provide unbiased advice and client-oriented products. They need to be sure, the client understands the product they are investing in. Advisors need to clearly explain that how the product works, the terms and conditions, returns and the fees assigned to the product. They need to be transparent about the benefits, costs and the limitations as well. The increasing rules and regulations require more effort and time of the advisors, therefore, they need to spend more time with clients to educate them about the product. Therefore, they need to know all of the small details regarding the investments and the rules and regulations while at the same time being transparent, honest, unbiased and objective which also helps to gain clients' trust.

As the headquarter of the Business Class Group is in Hong Kong, based on the Hong Kong rules and regulations, the company needs to diversify its services and products it provides in order to minimize the risks of the highly volatile market. Therefore, the company does not rely on only one service.



**Q2: What are the main changes regarding rules and regulations Platinum is facing? Give an example.**

The latest change is the OECD automatic exchange of information (AEOI) and the common reporting standard (CRS). It is the attempt to create a globally coordinated approach to the disclosure of income earned to avoid tax evasion. It involves other information sharing legislations including the FATCA and the European Savings Directive. The FACTA is a US regime aimed at the US persons with offshore account. The European Savings Directive aimed to counter cross-border tax evasion by collecting and exchanging information about foreign residents or individuals receiving savings income outside of their resident state. The declaration on automatic exchange of information in tax matters was endorsed during the OECD's meeting in Paris. The concept is that governments obtain information from their financial institutions and exchange data with other nations. Therefore, financial institutions are required to report. 44 countries have committed to implementing it by 2016 and 23 more countries confirmed that they will implement this in the coming years. Reportable income includes all type of investment income such as interest, dividends, income from insurance contract, and account balances and sales proceeds from financial assets.

| <b>Which countries and jurisdictions are involved? Early Adopters (2016):</b>  |                      |                                  |
|---|----------------------|----------------------------------|
| <b>Argentina</b>  | <b>India</b>         | <b>Spain</b>                     |
| <b>Belgium</b>  | <b>Ireland</b>       | <b>Sweden</b>                    |
| <b>Bulgaria</b>   | <b>Italy</b>         | <b>United Kingdom</b>            |
| <b>Colombia</b>   | <b>Latvia</b>        | <b>UK's Crown Dependencies</b>   |
| <b>Croatia</b>  | <b>Liechtenstein</b> | <b>of <b>Isle of Man</b>,</b>    |
| <b>Cyprus</b>   | <b>Lithuania</b>     | <b>Guernsey and</b>              |
| <b>Czech Republic</b>   | <b>Malta</b>         | <b>Jersey</b>                    |
| <b>Denmark</b>  | <b>Mexico</b>        | <b>UK's Overseas Territories</b> |
| <b>Estonia</b>  | <b>Netherlands</b>   | <b>of Anguilla,</b>              |
| <b>Finland</b>  | <b>Norway</b>        | <b>Bermuda, the</b>              |
| <b>France</b>   | <b>Poland</b>        | <b>British Virgin</b>            |
| <b>Germany</b>  | <b>Portugal</b>      | <b>Islands, <b>the</b></b>       |
| <b>Greece</b>   | <b>Romania</b>       | <b><b>Cayman Islands</b>,</b>    |
| <b>Hungary</b>  | <b>Slovakia</b>      | <b>Gibraltar,</b>                |
| <b>Iceland</b>  | <b>Slovenia</b>      | <b>Montserrat, and the</b>       |
|   | <b>South Africa</b>  | <b>Turks and Caicos</b>          |



## Which countries and jurisdictions are involved?

### Later implementation (by Sept 2018)

- 
- |                              |                                    |
|------------------------------|------------------------------------|
| ▪ <b>Albania</b>             | ▪ <b>Malaysia</b>                  |
| ▪ <b>Andorra</b>             | ▪ <b>Marshall Islands</b>          |
| ▪ <b>Antigua and Barbuda</b> | ▪ <b>Monaco</b>                    |
| ▪ <b>Aruba</b>               | ▪ <b>New Zealand</b>               |
| ▪ <b>Australia</b>           | ▪ <b>Saint Lucia</b>               |
| ▪ <b>Austria</b>             | ▪ <b>St Vincent and Grenadines</b> |
| ▪ <b>China</b>               | ▪ <b>Samoa</b>                     |
| ▪ <b>Cook Islands</b>        | ▪ <b>Saint Maarten</b>             |
| ▪ <b>Costa Rica</b>          | ▪ <b>Switzerland</b>               |
| ▪ <b>Ghana</b>               |                                    |
| ▪ <b>Grenada</b>             |                                    |
| ▪ <b>Indonesia</b>           |                                    |
| ▪ <b>Japan</b>               |                                    |

Source: David Knights, Investors Trust, training session. Platinum, 2016.

The reporting is based on residence, not citizenship. Information reported includes identity and residence of account holder, account details, reporting entity, account balance/value and income/sale or redemption proceeds. The reporting is annual and applies to both existing and new accounts. For example, the client is a Chinese national resident in France with a Cayman insurance policy that has a cash value. The client is reportable under CRS, because although China is not yet a signatory the client is both a resident in France which is an early adopter and has an account with a Financial Institution in Cayman which is also an early adopter. The client that is a British national resident in Thailand with a Cayman insurance policy is not reportable under CRS as Thailand is not yet a reportable country.

The company needs to identify reportable accounts. New client's reportable accounts are reported at the point of application. Advisers need to capture clients that move from a non-reportable country to a reportable one. As additional countries adopt the CRS, the company needs to schedule additional reviews and onboarding changes consistently and report those accounts along with the relevant financial information to the Cayman tax authority for exchange with the relevant reportable country- if we refer back to the previous example. If the company fails to report a client, it will be placed on a public blacklist. The advisors need to inform the clients about the reporting and they need to be able to explain why institutions are asking for more information. There is no negative impact on many clients unless they are not telling the truth when they are filling out the application form regarding their country of residence. In this case, the financial firm is not held responsible for providing misleading information the client is. However, the new rule will negatively affect all clients with American citizenship. Based on the US law, American citizens are required to pay taxes on all income generated abroad. Advisors

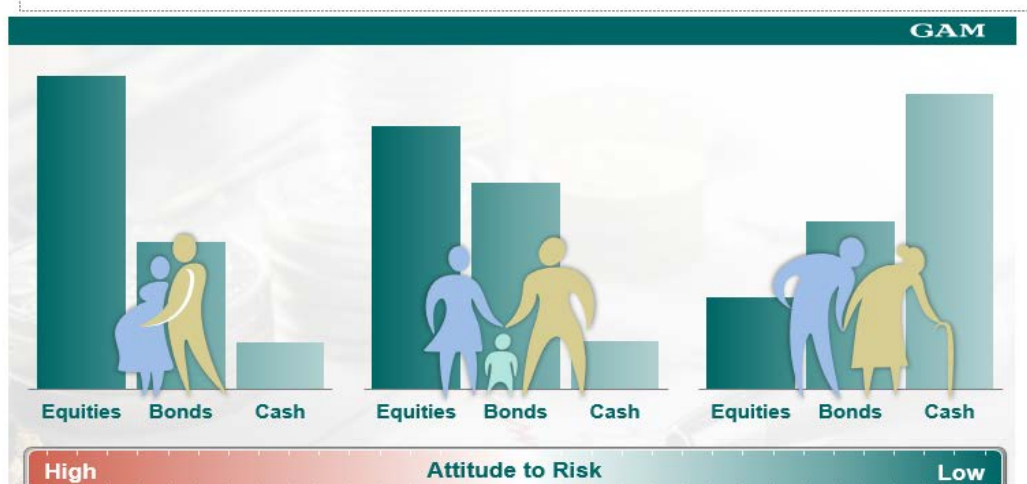


need to provide in-depth information to the clients on CRS and make sure that all clients understand the regulation.

**Q3: Financial advisory firms are facing challenges regarding the increase in customer expectation. What are these challenges for Platinum?**

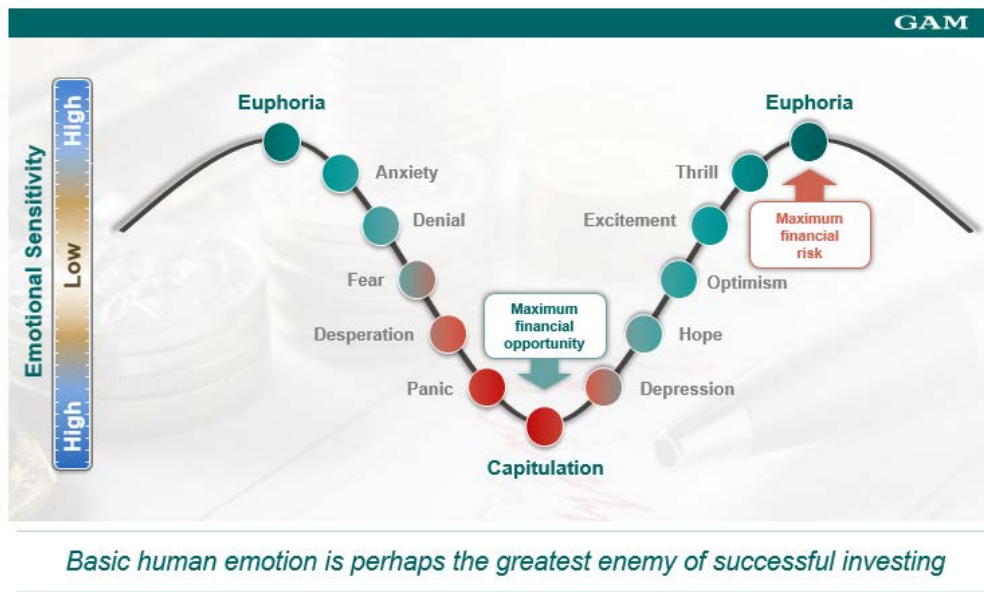
When clients decide to invest, there are two emotions affecting their decisions, either greed or fear. Clients expect a really high return on the risky investment and a good return on safer investment, and they always want more. New clients still do not have enough knowledge about the financial product, therefore, they often have unrealistic expectations. In these cases, we educate the clients and explain how the financial product works and what the optimal return can be received by investing in certain products. Advisors must be honest, objective and unbiased as clients can easily be dissatisfied if they do not receive what was promised. The competition is fierce and the clients know it. They have high expectations and they do not continue to work with their advisors if they are dissatisfied and can easily move to another advisor. Clients expect to receive excellent services in multiple ways. Clients want to know as much as possible about their investments and they want to understand the products they invest to. Advisors need to have the required knowledge about the products to fulfill their clients' expectations. They also want to be continually informed about their investments and receive honest and objective advice from the advisors. Clients are more actively engaged in the planning, ongoing and monitoring processes. Moreover, they expect a high level of transparency which includes being informed about all the advantages, returns, disadvantages, fees and product limitations. They want a high level of customer service and care which requires more frequent meetings and direct communications. There is an increasing demand for more automation and online services. Clients expect more electronic documentation and online communications. Their expectations also affected by age and family status. However, all clients request high quality, customized services that fit their situation and investment goals.

**1. Being Human - Age and the need for solvency**





## 2. The Emotion of investing



Source: David Knights, Investors Trust, training session. Platinum, 2016.

### Q4: How do you identify a customer's expectations and what their financial goals are?

Advisors' aim is to understand clients' financial situation by building partnership with them through several meetings and communications to find out their specific needs, goals and growth objectives. In addition, the company uses a risk profile and financial needs questionnaires which all clients fill in to determine the most suitable asset allocation for their requirements. There are questions related to time frame, income, target return, market patience, risk reality, risk profile, income currency, retirement and asset allocation by class, area and sector. The information gathered both ways will help to identify customer expectations, financial goals and risk appetite.

### Q5: Who are Platinum's main clients? Describe the company's client segments.

The company's main clients are expats living and working in Mainland China, Greater China, and Asia. Platinum is targeting high net-worth foreign investors living in Asia alone or with their families. The company also has high net-worth Chinese clients, but the majority of the clients are foreign citizens. Platinum has 250 clients and the company expect that this number will increase to 300 over a year period.

There are clients investing in life insurances and life plans. These clients have family and children and the customer's aim is to financially protect them in the future. Education is very expensive in China and worldwide. Parents start to save money for their children's tuition fee when the children are five or six years old by investing in these long-term plans. Other clients are investing in life plan for 15-25 years at the age of mainly over 32 to save money for their retirement. There are several options to invest in

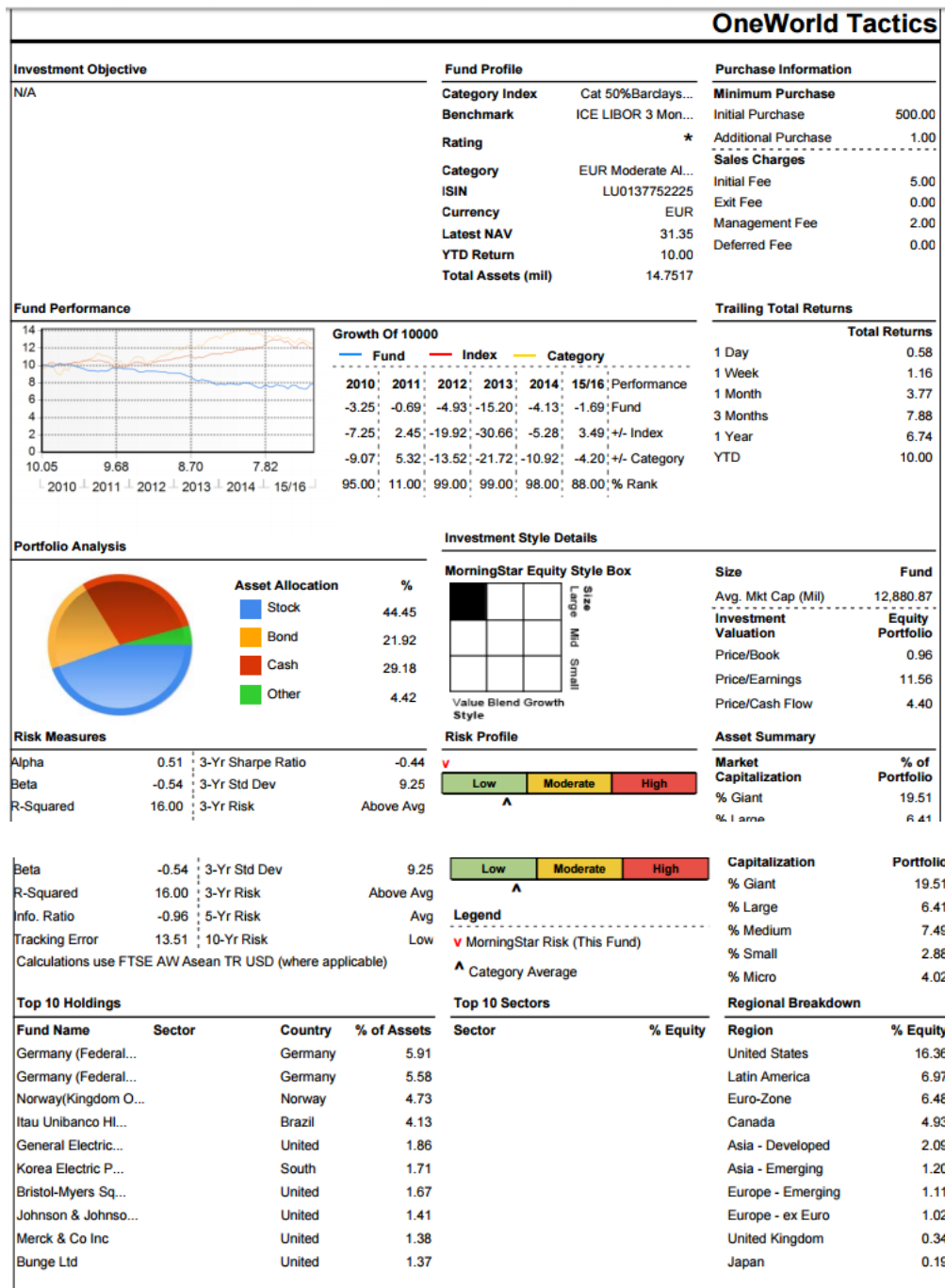


funds and diversified portfolios to receive returns based on the monthly portfolio performance. Invested amount can be premiums paid monthly, quarterly, semi-annually or yearly as well as lump-sum amounts. The company has several clients invested in health insurances, disability plans for temporary and permanent illness to protect themselves and their families in case an unexpected event occurs. Clients invest in these main categories, but there are several providers and fund houses available for clients to choose from based on their expectations and financial goals.

### **Q6: How market volatility affect investor's behaviour?**

Clients invest in fund portfolios to receive risk adjusted returns. The portfolio can consist of equities, bonds, cash and commodities in various currencies. Furthermore, many of the funds are already diversified as the investment product is divided based on the percentage of equity, bond, cash, and diverse companies operating in different countries. One portfolio can consist of several funds, usually between 4 and 10. The diversification enables to minimize the risk of market fluctuation and deliver an optimal return. However, due to the high market volatility in several sectors and countries, it is difficult to predict the changes in the market condition, therefore, the performance of the diversified fund investments may fluctuate and sometimes does not deliver the expected return. Clients expect a higher return for higher risk. Therefore, they are not satisfied with the fluctuating performance of the fund investments affected by the economic conditions and volatile market.





Source: RL 360 platform which is used by wealth managers to gather data for clients.

Example of one fund, OneWorld Tactics. This is one of the five funds of an investor's portfolio which represents 20% of their overall portfolio. The portfolio analysis shows the diversified asset allocation and the percentages. The top 10 holdings show that the client's money is invested in different companies operating in various countries.

Furthermore, clients are more cautious and less motivated to make an investment decision. For these reasons, many investors are not as attracted by fund investment and return as before and they are looking for other opportunities and products invest in, for example, alternative investments such as properties,



lands and wine among other products. These investments deliver a good rate of return for lower risk. Platinum needs to be aware of the increased demand for these products. Last year, Platinum received 16 complaints. 2 of them were serious dissatisfaction regarding portfolio performance. The rest of the complaints related to rules, regulations and policies which the company wants to decrease by 50 % over a 1 year period by providing training, educate clients and strengthen the culture of transparency, integrity and compliance.

**Q7: What is the most challenging and time-consuming task for an advisor? How do you find new clients?**

The most difficult task is to find a new client. Unfortunately, there are many investors who have had a negative experience in investing. They often try to invest without the help of advisors and they make a bad investment decision resulting in fear of invest again or in the future. There are many investors who had negative experiences with financial companies and wealth managers, therefore, they have no confidence in advisory firms and they do not trust the advisors. The company has clients who had unrealistically high expectation in respect to their financial situation and they were less likely to want to invest in a product which delivers lower returns than expected. It is very hard to gain the trust of these investors. It takes between four months to one year until the potential investor finally invests in financial products again. Advisors have several meetings during this period of time to gain the trust of the investor. It is much easier to attract investors who were referred by satisfied Platinum investors. Therefore, it is crucial to provide high-quality services, continually look after the client's investment and gain trust and satisfy the clients, because they more likely to refer the company to other potential investors and invest in other products as well. It takes one or two months until these clients invest in a financial product. Advisors can meet potential clients at networking events and they have started to search for potential clients via online network services such as LinkedIn. Many new clients are found through customer referrals. There are three stages of the sales procedure. The first, when the advisor has continuous contact with a potential client. The second, when the potential client becomes a prospect as he/she intends to invest and the advisor is working to find the product that fits the client's situation and investment goals. The third stage is when the client decides, with the help of the advisor, which product he/she is going to invest in and they handle the necessary documentation. Then the advisors need to provide post-sale services and look after the client.

**Q8: How do you keep contact with the clients and inform them about their investments?**

The advisors prefer to have a face-to-face meeting with the clients when it is possible. They also have contact with clients over the phone or on Skype. However, there is increasing demand for using digital devices to communicate and send information other than Skype or email. Most of the clients are



traveling quite often, therefore, it is difficult to arrange a meeting. Often clients need to cancel a meeting. There are times that the client has an important meeting and cannot be contacted. Therefore, the face-to-face meetings and phone calls are not the most effective way to contact clients. The advisors need to adapt to the technological changes and clients' increasing expectations regarding more effective and innovative communication to provide optimal, satisfactory service. If there are any issues or problems that arise, the advisors must be available and contact the clients as frequently as necessary with support and help in solving their problems.

### **Q9: What kind of advisory services the advisors need to provide after the sales of the investment?**

It depends on the investment product. If the client buys health insurance, life insurance or life plan, there is no further administrative service unless in cases such as end-of-life, illness, surgery, and issues pertaining to premium payment or terms and conditions. The advisors usually contact the client once or twice in a year to follow up. However, the frequency of the contact is not very effective. Advisors should check on the clients quarterly or every three months to improve customer care, offer other investment possibilities and look for networking opportunities to increase market share.

When clients invest in fund portfolios, however, the advisors need to have contact with the clients on a monthly basis. They provide a report on the funds and the whole portfolio performance and they discuss whether or not it is necessary to rebalance the portfolio based on the market changes and volatility to protect expected return.

### **Q10: How does the rebalancing happen?**

In the monthly meeting, the advisor discusses the portfolio performance with the client. If there is a fund that is not performing well, the advisor predicts changes in the market that affect the funds' performance or a big change in the economic condition and advises to remove one or more of the funds from the portfolio and replace it with another one to generate a higher return. It is also possible to change the allocation of the funds in the portfolio. If the client agrees, he/she needs to sign a document [only the very first time] to give permission to the advisor to make changes in the portfolio structure. Then the advisor fills in a document called a Switch Form to document all the changes he/she wants to make. After the client signed the switch form, the advisor sends it to the fund house, where the changes will happen.

### **Q11: How does the switch form look like?**

The switch form is a paper document used to record the changes will be made in the structure of the portfolio. It lists those funds which will be changed and sold and those funds which will be bought and invested as replacements. In the switch form, the advisor needs to record the funds' code and indicate



## Appendix D

the allocation in percentages. The form needs to be signed by the client before submitted to the fund house to make the changes. The advisor can meet the client to sign the document or the Switch Form can be scanned and sent to the client for approval signature. There is no digital version of the Switch Form and scanning the form is the only way to send it to the client via email. The Switch Form is a 10-year-old document and the company has never made any changes in its format and structure.

Policy Owner XXXXXXXXX

| Switch Instruction                                |        |  |       | Redirection of premium  |    |
|---|--------|--|-------|---|----|
| Please list each of the funds you want us to sell | Sell % | Please list each fund you want us to buy specifying currency for split allocations please indicate percentage per fund | Buy % | Please list all funds you want us to invest in specifying currency. | %  |
| Please stipulate the percentage to be switch out  |        |  |       | Please stipulate percentage per fund the total MUST add up to 100%  |    |
| Invesco Asset Mgt Global Health Care C            | 100    | Kleinwort Benson Elite Multi Asset Balanced Fund B GBP   | 100   | Kleinwort Benson Elite Multi Asset Balanced Fund B GBP              | 30 |
| Polar Capital Global Technology R USD             | 100    | Fidelity Global Dividend Fund GBP  | 100   | Fidelity Global Dividend Fund GBP                                   | 30 |
| Investec GSF Glb Strategic Managed A (Acc)        |        | Pictet Water P GBP   | 100   | Pictet Water P GBP  | 40 |
|   |        |  |       |   |    |

### Authorisation

I/we wish to alter my/our investment above. I/we understand that units will be switched and/or future premiums will be re-directed on receipt of this request in accordance with the policy conditions. I/we have read the literature which describes the investment strategy for the funds selected.

Signature of first policy owner \_\_\_\_\_ Date \_\_\_\_\_

Example of switch form. Source: Platinum, 2016.



|   |  |
|---|--|
| B | Switching some or all of your existing funds |
|---|--|

| Fund ID | Royal Skandia Fund Name:                 | %  |
|---------|--|----|
| 97295   | OMI IM EUR Parvest Eq World Utilities    | 15 |
| 96841   | OMI IM USD BNY Mellon Global Bond        | 15 |
| 97246   | OMI IM GBP Newton International Bond USD | 15 |
| 98246   | OMI IM USD BMG Gold Bullion              | 15 |
| 98431   | OMI IM GBP OM Newton Glb Hi Inc USD      | 10 |
| 98356   | OMI IM USD MFS Meridian Prudent Wealth   | 10 |
| 97640   | OMI IM USD Allianz Gbl Agricultural Trd  | 10 |
| 97184   | OMI IM USD HSBC GIF Global Core Plus Bd  | 10 |
|         |  |    |
|         |  |    |
|         | Total:                                   |    |


|                     |      |   |                     |      |   |
|---------------------|------|---|---------------------|------|---|
| Switch out of:      |      |   | Switch out of:      |      |   |
| Insert % of holding |      |   | Insert % of holding |      |   |
| Into:               |      | % | Into:               |      | % |
|                     |      |   |                     |      |   |
|                     |      |   |                     |      |   |
|                     |      |   |                     |      |   |
|                     |      |   |                     |      |   |
| Total               | 100% |   | Total               | 100% |   |

|                     |  |      |                     |  |      |
|---------------------|--|------|---------------------|--|------|
| Switch out of:      |  |      | Switch out of:      |  |      |
| Insert % of holding |  | %    | Insert % of holding |  | %    |
| Into:               |  | 100% | Into:               |  | 100% |
|                     |  |      |                     |  |      |
|                     |  |      |                     |  |      |

|   |                             |
|---|-----------------------------|
| C | Redirecting future Premiums |
|---|-----------------------------|

|  |      |                               |      |
|--|------|-------------------------------|------|
| Full Royal Skandia fund name:                | %    | Full Royal Skandia fund name: | %    |
| OMI IM EUR <u>Parvest Eq World Utilities</u> | 30   |                               |      |
| OMI IM USD BNY Mellon Global Bond            | 20   |                               |      |
| OMI IM GBP Newton International Bond USD     | 20   |                               |      |
| OMI IM USD BMG Gold Bullion                  | 30   |                               |      |
|  |      |                               |      |
| Total  | 100% | Total                         | 100% |

|   |               |
|---|---------------|
| D | Authorisation |
|---|---------------|

|   |                |  |              |  |                  |  |         |  |       |
|---|----------------|--|--------------|--|------------------|--|---------|--|-------|
|  |                |  |              |  | Date: 26/02/2016 |  |         |  |       |
| Signed: _____   |                |  |              |  |                  |  |         |  |       |
| Full Name: David Nowak  |                |  |              |  |                  |  |         |  |       |
| Capacity  | Account holder |  | Fund Adviser |  | Assignee         |  | Trustee |  | Other |

11




**Q12: Does the paper method and its structure is effective?**

It is an outdated document and it is not the most effective method in today's fast changing and innovative environment where the adaption of technological changes and devices become more and more important. Furthermore, the increasing regulatory requirements and clients' increasing expectations require that advisors provide more transparent services. The Switch Form is a very important document as it changes the structure of the portfolio and the outcome of the whole investment. However, it does not really provide the level of transparency required from investors and regulators. Most of the clients do not understand these forms which only shows the funds' name and their code. These funds are not like a client invest in shares of a well-known company when they know what the equity or bond is about. Advisors have several meeting with clients to educate them on the funds which are very complex, especially when they also grouped in a portfolio. The Switch Form does not give a brief description of the fund to make it easier for the client to see what changes will be made. Furthermore, the codes of the funds are known only by the advisors. They use the codes to find and track the fund's performance on the fund house's platform. Therefore, the client does not know anything about the codes and they do not understand them. The percentage of the funds allocation in the portfolio is not very obvious as well. Clients often do not understand what indicates the change in the percentages and the Switch Form does not give any explanation. Therefore, the client needs to contact the advisor if they want an explanation. This shows that Switch Forms are not very transparent. Most of the clients are not available every month to have a face-to-face meeting. They live in other cities, countries or travel quite often. Therefore, most of the clients request to receive the Switch Form via email. The advisor scans the document and sends to the client who needs to print, sign, scan and then send back to the advisor. If they do not understand something, they need to make additional phone calls or if they are traveling, they are not able to scan the document and send back on short notice. This makes the procedure more time-consuming and the positive changes made in the portfolio are delayed. Furthermore, the paper form does not provide any internal controls regarding mistyped information, the use of wrong data and leaving out important information.



**Q13: How does the monthly report look like?**



# SCHEME

# Arbenz Daniel

Friends Provident Intl.  
FPI Premier 07  
Q500135282  
Owner Daniel Arbenz  
Holdings Last Updated 03 Feb 2016

Start Date 28 Dec 2009 Sum Assured  
Maturity Date 08 Jan 2022 Additional Benefits 0  
Contribution Amount 2,000.00 Income Protection (p/a) 0  
Contribution Frequency Monthly Policy In Trust ☐ Type Investment  
Valuation Currency USD

| Holding   | % Alloc. | No. of Units | Price      | Value         | USD Value | GBP Value |
|---|----------|--------------|------------|---------------|-----------|-----------|
| <b>Europe</b>                                       |          |              |            |               |           |           |
| FPIIL Henderson European Growth (P63) (Acc)         |          | 8,208.3900   | USD 1.1550 | USD 9,480.89  | 9,480.89  | 6,809.05  |
| <b>International</b>                                |          |              |            |               |           |           |
| FPIIL Inv GT Gwth Mgd (J24) (Acc)                   |          | 284.3400     | GBP 3.2210 | GBP 915.88    | 1,275.21  | 915.88    |
| FPIIL Inv GT Healthcare (J57) (Acc)                 |          | 1,606.7700   | USD 2.2530 | USD 3,620.05  | 3,620.05  | 2,589.93  |
| FPIIL Inv GT Tech (J58) (Acc)                       |          | 2,497.4100   | USD 0.9920 | USD 2,477.43  | 2,477.43  | 1,779.29  |
| FPIIL Investec GS Global Strategic Equity(J74)(Acc) |          | 16,479.9500  | USD 2.2120 | USD 36,453.85 | 36,453.85 | 26,181.07 |
| FPIIL Investec GS Global Strategic Equity(J74)(In)  |          | 6,038.3400   | USD 2.2120 | USD 13,356.81 | 13,356.81 | 9,562.88  |
|   |          | Sector Value | USD        |               | 57,183.15 | 41,089.03 |
| <b>Miscellaneous</b>                                |          |              |            |               |           |           |
| FPIIL Fidelity Telecomms (J97) (Acc)                |          | 16,895.7200  | EUR 0.5470 | EUR 9,241.98  | 10,063.45 | 7,227.59  |

Example of monthly report, short list. Source: Platinum, 2016.

The monthly report is called short list. Advisors can meet a client in a face-to-face meeting where the short list is presented or they can send it to the client via email. Additional phone calls and meetings can also be arranged. One of the shortlists provides information on the various funds the client invested in including the number of units, price and the current value of different currencies. There is another type of shortlist which provides information on the cumulative performance less than a year and more than a year. The frequency of the funds' performance percentage comparison is monthly and yearly.



## Appendix D

### Cumulative Performance < 1yr

| Fund Name  | 1 month | 3 month | 6 month | Year to date |
|--|---------|---------|---------|--------------|
| P63 Henderson Horizon European Growth (USD) <sup>D</sup> | 6.10%   | -3.18%  | 4.28%   | -4.77%       |
| J24 Invesco Growth Managed <sup>D</sup>                  | 6.65%   | 0.21%   | 3.44%   | -1.00%       |
| J74 Investec GS Global Strategic Equity                  | 5.48%   | -5.21%  | -1.87%  | -4.78%       |
| J57 Invesco Global Health Care                           | 2.05%   | -12.46% | -15.05% | -14.07%      |
| J39 Schroder US Smaller Companies                        | 8.37%   | -0.76%  | -1.44%  | -1.85%       |
| J97 Fidelity Global Telecommunications <sup>S</sup>      | 3.72%   | -2.28%  | 3.91%   | -2.28%       |
| J58 Invesco Global Technology                            | 7.30%   | -10.78% | -5.01%  | -11.91%      |
| P02 Vanguard US 500 Stock Index <sup>D,J</sup>           | 5.57%   | -1.27%  | 5.10%   | -1.20%       |

### Cumulative Performance > 1yr

| Fund Name  | 1 Year  | 3 Years | 5 Years | 10 Years | Since Launch | Launch Date |
|--|---------|---------|---------|----------|--------------|-------------|
| P63 Henderson Horizon European Growth (USD) <sup>D</sup> | -8.29%  | 29.61%  | 51.94%  | -        | 30.86%       | 23/10/06    |
| J24 Invesco Growth Managed <sup>D</sup>                  | -7.77%  | 18.50%  | 48.35%  | 35.96%   | 262.26%      | 11/10/93    |
| J74 Investec GS Global Strategic Equity                  | -12.86% | 14.69%  | 27.89%  | 11.05%   | 148.49%      | 18/08/97    |
| J57 Invesco Global Health Care                           | -20.73% | 23.97%  | 57.24%  | 52.12%   | 146.34%      | 13/01/97    |
| J39 Schroder US Smaller Companies                        | -9.57%  | 19.33%  | 30.09%  | 45.83%   | 332.80%      | 01/12/95    |
| J97 Fidelity Global Telecommunications <sup>S</sup>      | -5.58%  | 31.29%  | 55.00%  | 62.21%   | -40.00%      | 01/03/00    |
| J58 Invesco Global Technology                            | -13.16% | 20.30%  | 20.86%  | 19.75%   | 12.15%       | 13/01/97    |

Example of short list. Source: Platinum, 2016.

### Q14: Does the client understand the monthly reports and do they provide enough information?

These documents are not transparent enough, therefore, most of the clients do not understand the results of the monthly report as they do not provide enough information. Clients often do not know and understand how their portfolio is performing. One of the monthly reports does show the current value of the performance, but it does not give any information on past performances. Therefore, the clients do not know that their portfolio is performing better or worse compared to the previous month and year. The other short list shows information on the current performance compared to previous months and years, but that information is the cumulative performance in percentage, therefore, the clients often do not understand what those percentages mean. The advisors need to provide an additional explanation so the client has an understanding of the portfolio's return. In order the information be more transparent



the two shortlists should be merged or a new short list should be created to provide more detailed information on the fund portfolio. The facts and figures also should be recorded more specifically to understand what the numbers mean. However, the company does not have a more transparent version of the shortlists and they usually send only one or the other to the client.

### **Q15: Do you have any other ways to represent the monthly performance to the clients?**

Except the short lists, there is a factsheet report advisors have access from the providers. These reports are 10 pages long per fund containing too much information. It is difficult and time-consuming even for the advisors to read through, therefore, the investors do not want to receive these reports every month. The clients who have good knowledge and understanding of the financial market and the funds usually request this report quarterly. The rest of the clients do not want to receive too much amount of information and they request the short list only, but they wish to see an adjusted version of this list which provides just the right and optimized amount of information.

#### *Group interview 2*

*Participants: Kevin Hennessy (branch/country manager, advisor), Benjamin Bourgoin (Advisor), Joey Harneet (advisor), Jeff Ngoi (analyst, advisor).*

### **Q16: Fund portfolios are very complex. Is there any challenges to collecting all the information needed on funds?**

Advisors receive support from the portfolio manager and analysts to help clients make decisions on funds. Portfolio manager makes a list of funds predicted to perform well based on various analysis on economic condition and market changes. The analyst of the company monitors in daily basis the changes in economic and market conditions and events can affect the market and economy. Therefore, the analyst can help narrowing the list of funds suggested to invest into. Then the advisors help create clients' portfolio based on financial goals, risk appetite, and financial status. They can collect information on funds from the providers, fund houses' platform. Factsheets and various analysis are available to analyze funds and help create the client's portfolio and inform them on the portfolio's performance. The main challenge is that each provider has its own online platform which designed and operates in a different way. Therefore, advisors need to know how these platforms work. If they do not use one or two platforms on a regular basis as their clients invested in another provider's funds, it may be more time-consuming for them to find the necessary documents needed. There is no standard method to find the information in the platforms as each provider designs its platform based on the most effective way to use it. What seems obvious to the provider, is often not so for the advisors. Therefore, the advisors think that many of these platforms are complicated and difficult to use. Each platform has its own login procedure and way to collect the information on funds and create a summarized document to demonstrate the collected information to the clients. As each provider thinks that the platform they use is the best and they use the best method to support advisors, a standardized method cannot be made.



There is a platform called Navy global, where most of the providers' funds can be found and the advisors can have the needed information and documents from that website. Advisors, however, do not use the Navgobal website as they did not receive information on how the website operates and the company did not motivate them to use it. Therefore, they still use the providers' platform and spend a significant amount of time collecting all the necessary information needed to provide advice to the clients. The other limitation of more standardizations are that every provider operates based on different objectives and except several common funds, they have their own funds and other products offered based on different conditions. Furthermore, there are funds such as mirror funds and various procedures, terms and conditions which may accept and offered by some providers, but they are not accepted and approved by another provider such as accept clients based on country of residence and nationality. This creates an issue in the case of merger and acquisition as well as the acquirer needs to operate two different platforms.

**Q17: How does the increasing competition affect Platinum and how it will change in the next 10 years?**

It is more difficult to attract clients. Their expectations are higher as they know about the fierce competition that exists between the financial service firms. Moreover, they spend more time contacting several companies to find the one which provides the best-customized service for them. Therefore, it is crucial that advisors have the required knowledge and skill, offer a wide variety of products and provide high-quality services. Nowadays, all companies advertise that they operate based on transparency and integrity and provide customized services. It is not easy to stand out. Due to the high competition, the advisory firms are trying to diversify and provide services in a different way than their competitors. This rise in customer expectation has prompted Platinum to consider offering property investments and other alternative investments. There are even some new entrants trying to offer online services using technological advancement like Leonteq. The industry is aware of the possibility of new entrants like Google, Apple, Facebook or Amazon. These firms have a strong brand reputation, large customer base and they are using advanced technology. For example, the biggest competitor of Amazon is Alibaba and they have been offering financial and advisory services in China since the beginning of 2016, which has attracted many clients in a short period of time. Although Platinum's majority of clients are expats and not Chinese, the entrance of a company like Google, Apple or Amazon can have a significant effect on the advisory industry and make it more challenging to compete. Therefore, it is crucial that Platinum builds a long-term relationship with its clients, creates trust, loyalty and satisfaction by providing value-added services. It is also crucial that Platinum meets clients' expectations regarding technological changes by providing more automated and online services. Most of the advisors predict that the number of financial advisory service firms and advisors will decrease significantly in the next 10 years due to the fierce competition in the industry among other factors such as regulatory requirements, increasing customer expectation and technological innovation.



**Q18: You mentioned that technology has a big impact on the financial advisory industry. What do you think about how the financial firms, providers and advisors are responding to the technological changes? What about Platinum's clients?**

Financial firms are responding slowly to the technological changes, especially the providers. Their main concern is the safety of the clients' asset and investments. Therefore, they are less likely to trust online financial transactions. Investors Trust, one of the providers, recently created an online application form and made it available for advisors to scan and send the form online. However, many other providers are still waiting for the digital technology to improve so they can safely handle clients' transactions. For example, Royal London 360, one of the biggest fund houses and Platinum's provider with assets under management of more than £10 billion still requires a physical signature from their clients on an application form for any withdrawals and contract exits. Therefore, clients need to sign the paper contract which then the advisors post to Royal London. The provider announced to Platinum that it will make an app available for advisors which they can download onto their tablet. Thus, enabling advisors to serve clients more effectively. The application form will be available online which clients can easily fill in, but the company still requests a physical signature, therefore, the form will still need to be posted. Royal London also announced that the company is working on making the technology available to scan these documents and send them electronically. The third step will be, in the foreseeable future, forms that can be filled out and signed electronically and then sent immediately to Royal London. As you see, there have been small changes, and financial firms expect that the shift toward digital technology will speed up as there are more advanced IT solutions available enabling better data protection and safety. More and more clients expected to be served by using digital technology and online networks. However, the advisors are not adapting as fast as clients require. They have a routine and well known [traditional] advisory processes which give them confidence when they provide services. Changing the way of advisory processes requires them to learn new systems which require familiarization and therefore decrease their confidence. They do not like changing well-known processes. For example, Investors Trust made the application form available online, however, the advisors are still using the paper form. Investors Trust mentioned in one of their training's that there are always some errors in the filled document due to its complexity, therefore, they encourage advisors to use the online form. It would be more effective as it provides preventive control and the form cannot be sent if an error is identified by the system. Advisors need to be motivated by the company and providers to use digital technology, recognize the role that digital technology can play in their advising processes and use online social networks to engage with clients and professionals to serve clients better and build long-term relationships.



**Q19: What are the requirements for advisors to become a member of Platinum's team?**

The minimum they need is to have a Bachelor's degree in Business Administration or Finance and they need to hold a brokerage certificate and meet a minimum quota set by the company during the trial period. Moreover, they need to have excellent sales and communication skills. The most important requirement, however, is that their behavior and actions match with the company's and the team's working culture. In Platinum, the client comes first in order to build trust and long-term relationships. This is the key to Platinum's success and good reputation. The new employees can learn a lot of value-added services, customer care, and teamwork during the training sessions. There is an intensive training when they start working for Platinum where they learn everything about the company's products, work ethic and the way the advisors provide services to the clients. Teamwork and collaboration are crucial. Although they are independent advisor's working for the company, they need to be team players in order to serve clients better due to the increasing complexity of investment and regulatory requirements. Platinum has a small team of advisors, but it is a great team where everybody supports each other. It takes a couple of weeks until the company and the advisors find out whether or not the new employee can be a valuable asset for the company. If not, the company will not sign a final contract with the advisor. Regardless of the fact that Platinum is seeking new colleagues the company's reputation is the first concern. If Platinum signs a contract with a new advisor, he/she will continue the training and will keep attending the training sessions, provided by the company and the providers, to learn more and become an effective member of the team.



**Q20: What do you think about the trainings provided by the company and the providers?**

The trainings are very useful and effective. The providers including Royal London, Investors Trust, and Friends Provident provide training sessions quarterly on the existing and new products, rules, regulations, terms and conditions. They monitor the advisors' actions and evaluate the questions they have on these topics with the providers' contact person to highlight and discuss areas that require attention. However, advisors think that more frequent training sessions could help to increase advisory service efficiency and effectiveness. The company is focusing on strengthening the culture of transparency, commitment, integrity, and compliance. Therefore, the advisors discuss previous cases and have discussions about clients' behaviour, work ethic, employee morale and behaviour. The training session takes place twice a year. There have been some issues regarding clients' due diligence which advisors find difficult to prevent, solve and handle. Therefore there is a need to make more frequent training sessions available to be able to provide better service and advice.

*Interview with Benjamin Bourgoïn (advisor)*

**Q21: What kind of providers Platinum is working with?**

One of our biggest providers is Royal London 360 operates from the Isle of Man. They offer products typically for between 10-30 years for expats. The product range includes life plan for whole life, term life or critical illness, Quantum regular savings plan, Oracle single premium bond with access to more than 120 funds, PIMS portfolio bond where premiums start at \$80,000. One of the biggest providers is Investors Trust which operates from the Cayman Islands. They offer products for medium and long-term international investors. The product range also, includes Evolution life plan, Platinum lump-sum plan with a wide range of investment options, S&P 500 Index principal protected notes, fixed income portfolios for short and medium-term, and Access Portfolio 5000 and 8000 which are lump-sum portfolio bond products providing access to a wide range of investment options. Friends Provident offers products including life assurance, pensions, and investment products for international clients. International Protector Asia is a product that combines Life Cover, Life or Earlier Critical Illness Cover, and Critical Illness Cover within one plan, for up to two lives assured. The plan aim is to provide protection for the family, mortgage, and business. There are various companies offering health insurance products including William Russel, Integra Global, and Pingan. There are various providers used to offer products for small client segment for example GBG offers loss of license for pilots. They are Platinum's main providers, but if advisors get clients from competitors, they often need to overlook investments from other providers as well.



**Q22: How advisors collect information on whether or not a client is eligible to invest in the providers' products?**

They can make an online quote on the providers' platform. The information required to make a quote includes the investor's country of residence, nationality, gender, and age, the number of lives assured and sometimes the coverage amount and term. Royal London 360 evaluates investor's eligibility based on country of residence. Friends Provident takes into account the client's nationality, country of residence, gender, age and smoking habit. Health insurances evaluate eligibility based on age, gender, country of residence, nationality, the number of life insurance policies, coverage amount, and term. The quote is just a basic evaluation. In the case of Life plans, life insurances, and health insurances, the clients need to have a medical check-up, with a doctor who is appointed by the provider and fill in a form which includes extensive questions about the client's medical history and lifestyle. As every client is unique, the advisors usually do not know whether or not a client is eligible to consider the investment product without a quote. If the client is eligible based on the quote, there can be many factors (later on) which lead the provider to make the decision to reject the client. For example, the result of the medical check-up, client's background history, issues regarding clients' due diligence and transparency. In complicated cases or when advisors need assistance they can contact the provider's representative to collect information on eligibility, terms, and conditions and ask for help.

**Q23: You mentioned that you have several customers from competitors and other financial firms. What are the main reasons that clients change an advisor and company?**

Clients are often not satisfied with the advisor's services and their portfolio performance or the advisor left the company and the client is dissatisfied with the new advisor. These are the main reasons, but in the most cases, insufficient advisory services motivate the client to change advisor and company. Advisors may not transparent or after the client invested they often do not look after the client's investment and do not provide post-sales services. These actions have a big impact on client's investment, especially on fund portfolios which need to be continually rebalanced to deliver the expected return.

**Q24: What is the reason that advisors do not look after the client?**

The reason is that advisors receive all their commission right after the client invested into a product and signed the contract. Therefore, many of them do not look after the client's investment after they received the full commission regardless of the fund portfolios requires continual rebalancing. Advisors are not financially affected by the client's portfolio performance. It also means if the investor wants to change the advisor, the new consultant will not receive any commission as it has taken by the previous one. The case is the same if an advisor leaves the company and another advisor needs to take over the client. For this reason, the new advisor may also not look after the client. It is not easy for the client to find a



committed advisor if she/he wants to change the current one. It would be better if the advisors receive their commission quarterly or annually, so they remain motivated to overlook client's investment. The commission payment terms depend on the providers, therefore, only they can change them. At this time, all of them have the policy of paying commission up front. However, Investors Trust has recognized this issue and it is going to change the policy of commission payment so advisors will receive their commission periodically.

**Q25: What is the difference regarding advisory services when you have a client from a competitor?**

They are seeking support and help with their investment, however, it is difficult to gain their trust again. These clients are more suspicious and require even more information, transparency, care and commitment. Also, they want to see fast results and their investment handled properly. However, advisors who take over clients from other firms will not receive any commission. They will - technically - work free while they often need to look after unfamiliar providers' products that their company is not selling. For example, there are clients from other firms who have investments in Zurich's funds. It is a provider with a good reputation and great funds, but Platinum does not sell them. The reason is that those funds cannot be sold in China, so the advisors can look after a Zurich fund portfolio, but they cannot sell them. Therefore, they are not familiar with the company's platform and it is time-consuming to collect all the information on the funds to inform the client and suggest rebalancing and changes in the portfolio. Clients from other firms require more care and attention in the beginning to allow advisors to build trust and create a long-term relationship.

**Q26: Why is it good to have clients from other firms and competitors?**

If advisors provide high-quality services and look after the client's investments even though they will not receive any commission, the investors become the most loyal clients as they feel that the advisors can be trusted, they are committed and provide services in the client's best interest. They are more likely to invest in other products and refer the company to their friends, families and colleagues. Clients' referrals are the best advertisement for Platinum which is highlighted because Platinum treats the client as the first priority, but also comes out in how Platinum provides services differently compared to their competitors. Therefore, advisors do not receive commissions after the existing investment, but instead as a value-added service. Looking after these clients' investment and delivering high-quality services will provide much more benefits in the future. As finding a new client is the most difficult and time-consuming task of an advisor, Platinum's aim is to increase market share by providing high-quality value-added services for these clients. Thus, the company can strengthen its reputation which enables them to attract more clients. Last year, Platinum counted 20 referrals which all turned into business and the company expects that this number increase by 3 referrals per advisor: in the total of 12 referrals.



**Q27: You focus on health insurances, life cover and critical illness cover more than other advisors. What are the main issues regarding to these products?**

These products have very complex and extensive policy, terms and conditions. Advisors need to use brochures and product descriptions to advise clients as they are not able to learn and remember all the details. Each client is different, therefore, the terms and conditions as well which are not clear all the time. Therefore, advisors need more support from and collaboration with the providers to collect all the information needed to help decide clients which product they can and should invest into. Moreover, they need to spend more time with clients to educate them about the terms and conditions and what outcomes they can expect in various circumstances and situations as well as making sure they understand all the information. Other issues are client's transparency and due diligence. When they want to purchase one of these products, they need to fill in the form and answer the questions honestly. They need to be transparent regarding medical history, lifestyle, health conditions and financial background. If they are not honest and they withhold information, the providers cancel the contract agreement, they will not be covered and they will not receive any return.

**Q28: Can you give examples?**

I have one client who bought health insurance. In this case, the client needs to fill a form where honestly answers all the questions regarding health condition, medical history and lifestyle such as smoking habits. In the medical history session, the client needs to mention all surgeries she/he has ever had. The client stated that she did not have any surgeries. Three weeks ago, she called me that she is in the hospital having an expensive surgery and she expected it will be covered by her insurance. Therefore, she wanted me to contact the health insurance company and inform them. The insurance company confirmed that it will cover the surgery, however, the hospital found out that my client has had a knee surgery before and informed the insurance company. As she lied on the application form and was not transparent about her medical history, the company immediately cancelled her contract. Another example, when clients are not transparent about their income and tax payment. In China, there are several companies that record lower income for employees so they pay less tax as well. The remaining amount they try to get out of China in different ways such as investments in financial products. However, there is a restriction on how much money can be transferred out of China and under what circumstances, therefore, the government monitors all the financial firms. Due to the Chinese rules and regulations, the providers want to be sure that they sign a contract only with clients whose income and tax reports comply with the Chinese rules and regulations. This means, clients need to report all their income and cannot withhold information. For example, Investors Trust is started to make post sales calls to investigate new clients and whether they were honest and transparent about their financial background. They will cancel a client's contract if they find any misrepresentations and starting in June, they are going to hold advisors responsible [too] in order to motivate them to better educate clients



about the rules and regulations and the consequences of any misrepresentation. They want clients to be honest and transparent.

### **Q29: What can the advisors do about these issues?**

At first, the advisors need to be an example of due diligence, honesty transparency, and integrity. They need to provide services by showing the correct actions to take. Clients are often honest with the trusted advisor and they tell the truth about their income and taxes. However, some will ask advisors to help them hide the truth. We should do what Investors Trust suggests the advisors do such as educate clients about the terms and condition and consequences of any misrepresentation as well as show them that being honest and transparent is in their best interest.

*Interview with Kevin Hennessy (branch/country manager, advisor)*

### **Q30: Can you tell about Platinum's mission, strategies, financial performance and growth plan?**

Platinum's mission is to provide customized, excellent financial services for our clients and build a collaborative long-term relationship based on trust. In order to achieve our mission, the company strategy is to provide unbiased, honest and objective advice, and client-oriented products with the help of experienced and knowledgeable advisors. In order to clients feel their investments are safe, we make them actively engaged in the planning, executing and monitoring activities. Moreover, by having strict internal regulatory and compliance regimes in place and by aligning with partners representing high-quality standards, Platinum aim is to secure clients' wealth and develop services that build on trust, transparency, commitment and integrity and help to create high customer satisfaction and loyalty as well as increase customer referrals. Furthermore, the company is focusing on to develop customized financial strategies that fit the client's situation, risk appetite, and investment goals. Each client is unique and they are our first priority, therefore, Platinum is providing advice which is not burdened by self-interest. We enhance diversity and thinking out of the box, and respect and value differences of ideas and opinions.

The asset under management is about of \$84, 000,000 and Platinum set a target of 10% increase over a year. The company's revenue is \$5,000,000 which from around 70% , \$3,500,000 is generated by selling the traditional investment products such as funds investment, life plan, critical illness and disability cover, life and health insurance. The remaining 30%, \$1,500,000 is generated from alternative investments such as properties. As the company is planning to offer more variety of products under the alternative investment category and increase the property investment opportunities, Platinum estimates 14% increase in the sales of these investments. We also keep focusing on the sales of the existing traditional investment product, therefore, the company estimates 10% increase in sales revenue over a year.



**Q31: The complexity of investments are increasing and every customer receives client oriented services and invest into customized products. Therefore, several issues can arise which are not mentioned in the providers' brochures and training. How do the advisors share the collected new information on how to handle certain problems?**

We have two office rooms and there are no doors and walls in the offices which enable advisors to work and collaborate interactively. They often share information between each other during the day. If an advisor needs suggestions and help, he/she often asks other advisors. In addition, the company also arranges meetings every 3 months to discuss issues, special situations, and new findings on products' policies, rules, and regulations. Moreover, the meeting gives the opportunity to discuss new ideas, suggestions on the company's services. These meetings provide the most information for advisors, therefore, they would like to attend on meetings more frequently as during the 3 months between the meetings they miss to receive relevant and useful information.

**Q32: How the complexity of investments affect what kind of products the advisors offer to the clients?**

As the complexity of investment increase, the advisors need to spend more time providing services to a client. It requires more frequent and time-consuming meetings and interactions with clients and providers as more time spent on to find the products which suit best the client's needs. Therefore, advisors often focus on products that provide higher commission for them to get more "reward" for more work. They offer products with good return, so clients can be satisfied, but analyzing the whole product range, it is possible that there are investment products with even greater advantages and suit clients' financial goals even better, but they may deliver lower commission for the advisors, therefore the advisor choose other products to offer which benefit not just the clients, but the advisors as well. However, the client should come first and advisors should provide advice which is not burdened by self-interest. The increasing complexity of investments also has an effect on what kind of products advisors do not like to offer. There are investment products which are very difficult to understand and often advisors do not know all information on them. As they are not confident to give advice on these products, they do not like to offer to the clients. Advisors often do not understand the terms and conditions and do not know the investment's return affected by various circumstances. If advisors are selling some products more often than others, they know more information and details about them and more confident to sell them. Therefore, they more like to offer these products and do not motivated to sell other less known or new products.

**Q33: What can Platinum do to focus advisors attention more on the client's interest and less on self-interest?**

Advising becomes more difficult, however, in Platinum clients are the first priority and advisors should look at what is the best for the client, provide a wide variety of products and customized high-quality



services. Therefore, the company needs to provide training on how advisors can benefit from value-added services. Giving advice on investing into products which provide higher commission for an advisor, but lower return for a client maybe deliver more benefit for an advisor in short-term. However, offering products which may provide lower commission, but meet and exceed client's expectation will generate much more advantages in long-term. Satisfied clients more likely to invest in other products and refer the company and the advisors to their families, friends, and colleagues who then become Platinum's clients as well. Therefore, advisors can generate more benefit in the end by looking at client's best interest. Last year, 20% of Platinum's business made from repetitive investments of existing clients and the company expects 10% increase over a 1 year period.

**Q34: Can you give an example of product that is complicated and difficult to understand?**

One typical example is the structured notes which are investments whose return is linked to the performance of the underlying assets such as equities, interest rates, foreign exchange rates, equity indexes. The structured notes have fix maturity usually between 3 months and 6 years. There are 8 different types of payoffs the client can choose from. They can also decide on the number and type of underlying assets, observation frequency, barrier level, coupon trigger level, currency and coupon type. Based on the decisions made using these factors the percentage of return on investment will differ. Structured notes are very complex and require time to fully understand the manner in which the return is calculated. Although, the structured note which a client will invest in provides written explanation on the terms and conditions and the return as well. The language of the note can be very difficult to understand even for advisors who have knowledge of the financial market and investments. They find it challenging to explain the product to clients, especially to create a custom made one which better suits client's needs and financial goals. Moreover, they are not confident about the knowledge they have on these products. Therefore, advisors do not like to offer structured notes to clients, regardless of the demand for the product. Investors find structured notes attractive as the underlying assets in most cases are Fortune 500 companies or other well-known firms, therefore, they understand better the investment and they often have more information on these companies or they are easier able to collect information compared to fund portfolios. Structured notes are attractive investments especially for investors who are employees of a firm available to invest into as they know more about the company and the industry and sector it operates in. In Platinum, only a few investments are made in structured notes and the advisors often do not even mention them as an investment opportunity, however, many clients are looking for exactly something like structured notes. The advisors say they do not understand structured notes and they cannot talk about them or give advice about them regardless of the training they have received. It is just too complicated to design the notes and accurately calculate the outcome.



**Q35: Is there any way to make it easier for advisors to offer this product?**

Yes. Platinum is going to work with a company called Leonteq which is an independent technology and service partner who provides automated investment solutions including structured notes. The company is available worldwide in 9 countries working with 7 Swiss banks and provides the automation of key processes through its online platform. Therefore, advisors can create structured notes with the help of Leonteq's platform including custom made notes or clients can invest in existing structured notes. Advisors just need to fill in the required information regarding the characteristics of the notes and the online platform makes all the necessary calculations, creates the description and the final note including the terms and conditions. The platform provides extensive analysis of underlying's performance, market conditions and offers a list of about thousands of companies to select from. The notes are created in 3 different languages, can be sent or downloaded as a pdf file and presented to the clients. As we can see, it makes it much easier for advisors to create structure notes which enhance the increase of investments in structured notes.

*In the next pages there are example of structured note created by using Leonteq. The characteristics of the notes as follows:*

**Product 1**

- Global Indices with Oil Index
- EU Barrier and Coupon Trigger 60% with Memory Coupon
- 7%pa Coupon with Quarterly Observations

**Product 2**

- US Blue Chips
- 7%pa Guaranteed Coupon
- EU Barrier 60% with Quarterly Observations

5.5% distribution fee per product



| Product Name                              | Coupon (p.a.) | Currency | Coupon Type             | Underlyings   | Autocall Trigger                     | Coupon Trigger | Barrier Level   |
|---|---------------|----------|-------------------------|---|--------------------------------------|----------------|-----------------|
| <b>Issuer: EFG International Guernsey</b> |               |          |                         |   | 0e35e1ab-9f94-4ab3-a6ff-9fc995e473ab |                |                 |
| Global Indices with Oil Index             | 7%            | USD      | Conditional With Memory | ISHARES FTSE 100<br>EURO STOXX 50 Price Index<br>S&P 500 INDEX<br>S&P GSCI Brent Crude ER | 100%                                 | 60%            | 60%<br>European |
| <b>Issuer: EFG International Guernsey</b> |               |          |                         |   | 7ec00977-0994-4852-a9a8-eb3dd24d56a7 |                |                 |
| US Blue Chips                             | 7%            | USD      | Guaranteed              | MICROSOFT CORP<br>APPLE INC-REG<br>FACEBOOK INC-A   | 100%                                 | Guaranteed     | 60%<br>European |

## Equity Analysis

| Bloomberg Ticker | Underlying     | Sector         | Buy % | Hold % | Sell % | No. of Analysts | 12m target price growth |
|------------------|----------------|----------------|-------|--------|--------|-----------------|-------------------------|
| MSFT UQ Equity   | MICROSOFT CORP | Technology     | 63%   | 26%    | 11%    | 38              | 14.62%                  |
| AAPL UQ Equity   | APPLE INC-REG  | Technology     | 85%   | 12%    | 4%     | 52              | 30.37%                  |
| FB UQ Equity     | FACEBOOK INC-A | Communications | 90%   | 8%     | 2%     | 52              | 22.52%                  |

## 2 YEARS MULTI BARRIER EXPRESS CERTIFICATE

### 7% P.A. CONDITIONAL MEMORY COUPON – 60% MULTI BARRIER WITH OBSERVATION AT MATURITY ONLY



## PRODUCT DESCRIPTION AND OPPORTUNITIES

The 2 Years Multi Barrier Express Certificate is a product that offers a 7% p.a. conditional coupon paid quarterly.

## Coupon Mechanism

- The Conditional Coupon of 7% p.a. is paid if the worst performing underlying is above the Coupon Trigger Level on each observation date (assuming no early redemption).
- Any unpaid coupon is recorded and will be paid on the next observation date if the coupon condition is met.

## Redemption Mechanism

- On any observation date (quarterly), if the worst performing underlying is above the respective Autocall Trigger Level, the Product will be early redeemed and the investor will receive 100% of the denomination plus any payable coupon.

At maturity (if the product has not been early redeemed)

- If the worst performing underlying is above the Strike Level or is not below the Barrier, the investor will receive 100% of the denomination.
- Otherwise, if the worst performing underlying is at or below the Barrier of 60% at maturity, the investor will receive the denomination reduced by 1% for each 1% negative performance of the worst performing underlying.

## HIGHLIGHTS

- Conditional Memory Coupon of 7% p.a.
- Autocall Trigger Level: See Redemption Schedule
- Coupon Trigger Level: See Redemption Schedule
- European Barrier Level at 60% of the initial fixing
- Maturity of 2 Years maximum



WOULD YOU LIKE TO  
KNOW MORE ABOUT  
STRUCTURED PRODUCTS?

Please email us [info@leonteq.sg](mailto:info@leonteq.sg) and visit our website [www.leonteq.sg](http://www.leonteq.sg)

## FACTS AND FIGURES

|                     |  |
|---------------------|--|
| <b>Issuer</b>       | EFG International Finance (Guernsey) Ltd., St Peter Port, Guernsey   |
| <b>Guarantor</b>    | EFG International AG, Zurich, Switzerland (Fitch A with stable outlook / Moody's A1 with negative outlook) |
| <b>Maturity</b>     | 2 Years  |
| <b>Currency</b>     | USD  |
| <b>Denomination</b> | USD 1'000  |
| <b>Underlying</b>   | ISHARES PLC-ISHARES FTSE 100 EURO STOXX 50® Index  |



EFG International AG, Zurich, Switzerland acts as Guarantor for the issuer's obligations according to the relevant terms of the products.

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Phone +65 6690 5200 | Fax +65 6690 5298

|                               |                                 |
|-------------------------------|---------------------------------|
| <b>Autocall Observations</b>  | Quarterly                       |
| <b>Coupon Type</b>            | Conditional                     |
| <b>Coupon</b>                 | 7% p.a.                         |
| <b>Memory Coupon</b>          | Yes                             |
| <b>Autocall Trigger Level</b> | See Redemption Schedule         |
| <b>Coupon Trigger Level</b>   | See Redemption Schedule         |
| <b>Strike Level</b>           | 100% of the initial fixing      |
| <b>Barrier Level</b>          | 60% of the initial fixing       |
| <b>Barrier Type</b>           | EUROPEAN (observed at maturity) |

Please consider the risk disclosure on the next page.

YIELD ENHANCEMENT | FEBRUARY 2016  
2 YEARS MULTI BARRIER EXPRESS CERTIFICATE ON ISHARES PLC-SHARES FTSE 100, EURO STOXX 50® INDEX, S&P 500®, S&P GSCI BRENT  
CRUDE ER®  
7% P.A. CONDITIONAL MEMORY COUPON – 60% MULTI BARRIER WITH OBSERVATION AT MATURITY ONLY

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#### RISKS

- If the worst performing underlying closes at or below the Barrier Level at maturity, the investor may receive less than 100% of the denomination.
- Before maturity, the secondary market value of the Certificate is influenced by many factors (amongst others volatility and interest rates) and may be below 100% of the Denomination.
- The product is not capital protected. Investors may lose part or all of the invested capital.
- Maximum yield is limited to the coupon payment.
- Compared to a direct investment in the Underlying, the investor will not be entitled to receive any dividend payments.
- The investor bears the credit risk of the issuer and the guarantor.

Product Id: a7e10242-9eda-407b-a018-71e077f6828f

#### REDEMPTION SCHEDULE

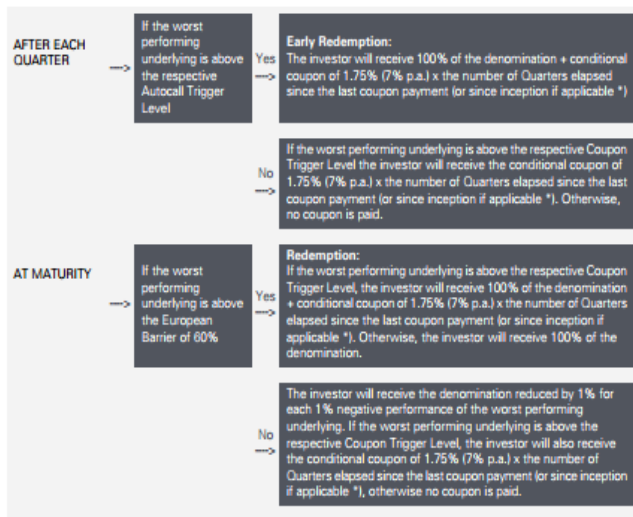
| OBSERVATION DATE | COUPON TRIGGER LEVEL | COUPON AMOUNT | AUTOCALL TRIGGER LEVEL | REDEMPTION AMOUNT |
|------------------|----------------------|---------------|------------------------|-------------------|
| Quarter 1        | 60%                  | 1.750%        | 100%                   | 100%              |
| Quarter 2        | 60%                  | 1.750%        | 100%                   | 100%              |
| Quarter 3        | 60%                  | 1.750%        | 100%                   | 100%              |
| Quarter 4        | 60%                  | 1.750%        | 100%                   | 100%              |
| Quarter 5        | 60%                  | 1.750%        | 100%                   | 100%              |
| Quarter 6        | 60%                  | 1.750%        | 100%                   | 100%              |
| Quarter 7        | 60%                  | 1.750%        | 100%                   | 100%              |
| Quarter 8        | 60%                  | 1.750%        | 100%                   | 100%              |

#### REDEMPTION AT MATURITY

| FINAL LEVEL OF THE WORST PERFORMING UNDERLYING | FINAL REDEMPTION (WITHOUT ANY COUPON) |
|--|---------------------------------------|
| 120%   | 100%                                  |
| 110%   | 100%                                  |
| 100%   | 100%                                  |
| 90%  | 100%                                  |
| 80%  | 100%                                  |
| 70%  | 100%                                  |
| 60%  | 60%                                   |
| 50%  | 50%                                   |
| 40%  | 40%                                   |
| 30%  | 30%                                   |
| 20%  | 20%                                   |
| 10%  | 10%                                   |
| 0%   | 0%                                    |



#### REDEMPTION MECHANISM



\* The Coupon is paid since inception if the Coupon Trigger Level is equal to the Autocall Trigger Level, or if the early redemption takes place on the first observation date, or if the Coupon Trigger condition is met at any observation date without any coupon payment on any previous observation date.

Source: LEONTEQ 2016

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Singapore

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The principles of collateralization are summarized in an information sheet issued by SIX Swiss Exchange. This information sheet is available from the [www.six-swiss-exchange.com](http://www.six-swiss-exchange.com) website. The issuer shall, upon request, provide the framework agreement to the investors free of charge in the German version or in an English translation. The framework agreement may be obtained from the lead manager at Brandschenkestrasse 90, P.O. Box 1686, CH-8027 Zurich (Switzerland), or via telephone (+41 (0)68 800 1000), fax (+41 (0)68 800 1010) or email ([termsheet@leonteq.com](mailto:termsheet@leonteq.com)).

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**Q36: Thea advisors mentioned that clients are looking for new investment opportunities such as alternative investments and properties. What kind of new investment opportunities Platinum is planning to offer?**

We want to increase our property portfolio by offering investment opportunities mainly in the UK working with Fraser among others and in Australia. Moreover, land investments will be available in the US and Canada working with Walton International which is concentrating on the research, acquisition, administration, planning and development of strategically located lands. There will be wine investment opportunities in the wine market working with Cult Wine which specializes in the buying and selling of investment grade wines and focuses on providing market-leading wine investment services. Therefore, clients can invest in fine wine through wine investment funds or the construction of private wine investment portfolios. For clients who wish to be socially responsible and protect the environment and nature with their investment while at the same time receiving a safe return, there are planting



## Appendix D

opportunities in Agarwood. If any trees are damaged due to unexpected circumstances, they will be replaced providing clients secure investments. In the last few years our Agarwood has dominated the fragrance world as an ingredient, therefore, it is an attractive investment opportunity. Last year, 30% of Platinum's business generated by the sales of properties. By offering new investment opportunities the company expects 14% increase of alternative investment products.