

DATE: April 3, 2017  
 AUTHOR: Aaron M. Bell, ChFC®, CLU®, CLTC®, MA  
 TOPIC #12: Stakeholder Theory & Financial Planning  
 PROMPT: Describe how stakeholder theory is relevant to financial planning.

In latent terms, stakeholder theory helps a financial planner mediate the multiple interests and forces acting on overall planning process, regardless of sustainability or the value process of the firm or advisor. Practitioners in the financial field are exposed to stakeholder channels such as: state and federal legislation and taxation, policy and ethical standards arising from regulatory bodies such as FINRA and the SEC, firm compliance ordinates from broker dealers and RIAs, collegial roles with employees and partners, reputation (in one's natural market) with clients and prospects, a barrage of media perspectives and personalities that must be mitigated, and often under shadowed, is the stake one has in the health and welfare of the *self*—the need to find balance with one's family, one's personal ambitions and often multiple pairings with ongoing education and extracurricular outlets are necessary.

Figure 1 shows the myriad of stakeholder interests directly impacting the practitioner. It is a difficult task for a financial planner to weigh the pros & cons when a decision on an issue such as where one stakeholder may have to be prioritized over another, and certainly all must be considered.



A real-life application of stakeholder theory can be seen currently in the bankruptcy challenges facing the City of Detroit. Reduced to simple terms, Detroit had accrued over \$18 billion in debt and with a total budget of under \$1.25 billion per year in 2014, it simply did not have the capacity to repay its 200,000 creditors on time, if at all. With important stakeholders like City Retirees and Pensioners, bondholders of city issued debt instruments, banks and lending institutions that help business owners and home owners, and the city's citizens themselves that rely on public infrastructure, the discussion quickly became how could the city prioritize repayment with such limited resources and such poor revenue forecasts. As an exercise, a cohort of financial service practitioners got together, divided into the aforementioned 4 stakeholder groups to represent the crisis in Detroit. The values and petitions of each were made aloud, and in this exercise the pensioners and citizens were given first priority—assumably because the city suffers most if its people do not remain.

The Detroit Project is a good example of the fiduciary, economic, constitutional and interpersonal challenges that arise when multiple stakeholders have competing interests on limited resources.

The same acting forces are evident on the financial planner, for there are only so many hours in a day, and only so many resources in a planning practice's personnel and platform offerings. To be successful, especially as the practice becomes more comprehensive, a planner has to implement efficiencies to address all stakeholders or one by one problems will arise. In this industry, the consequences are severe: client retention may suffer, family life may be strained, fines may be

Aaron M. Bell | ChFC®, CLU®, CLTC®, MA | Financial Advisor

**CANNATARO PARK AVENUE FINANCIAL**  
 Northwestern Mutual Wealth Management Co.  
 245 Park Avenue, Suite 1800  
 New York, NY 10167  
[cpaf.nm.com](http://cpaf.nm.com)  
 646.366.6571  
[Aaron.Bell@NM.com](mailto:Aaron.Bell@NM.com)



**CPAF**  
 Cannataro Park Avenue Financial  
 Commitment. Integrity. Results.



**Northwestern Mutual**  
 Wealth Management Company®

imposed, or worse a practitioner could be barred altogether. Practically speaking, how the financial planner establishes a protocol of systems to negotiate the many shareholders is of utmost importance.

**References:**

- **Citizen Research Council. (2012, April). Detroit City Government Organization: Departments, Funds, and Deficits. Retrieved from <http://www.crcmich.org/PUBLICAT/2010s/2012/memo1112.pdf>**
- **PRATT, D. A. (2014). Focus On... The Detroit Bankruptcy and Its Implications for Public Employee Retirement Plans. *Journal Of Pension Benefits: Issues In Administration*, 21(2), 3-12.**

---

No investment strategy can guarantee a profit or protect against loss. All investments carry some level of risk including the potential loss of principal invested.

Cannataro Park Avenue Financial is a marketing name for Louis Cannataro, Aaron Bell, Bradley Bedell and Philip Coffman in their capacity as a representative of Northwestern Mutual and is not a legal business name. Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NM) (life and disability insurance, annuities, and life insurance with long term care benefits) and its subsidiaries. Louis Cannataro, Bradley Bedell and Philip Coffman are Representatives of Northwestern Mutual Wealth Management Company® (NMWMC), Milwaukee, WI (fiduciary and fee-based financial planning services), a subsidiary of NM and federal savings bank. Louis Cannataro, Aaron Bell, Bradley Bedell and Philip Coffman are an Insurance Agents of NM and Northwestern Long Term Care Insurance Company, Milwaukee, WI, (long-term care insurance) a subsidiary of NM, and are Registered Representative of **Northwestern Mutual Investment Services, LLC (NMIS)** (securities), a subsidiary of NM, registered investment adviser, broker-dealer and member FINRA and SIPC.

**Aaron M. Bell** | ChFC®, CLU®, CLTC®, MA | Financial Advisor

**CANNATARO PARK AVENUE FINANCIAL**  
 Northwestern Mutual Wealth Management Co.  
 245 Park Avenue, Suite 1800  
 New York, NY 10167  
[cpaf.nm.com](http://cpaf.nm.com)  
 646.366.6571  
[Aaron.Bell@NM.com](mailto:Aaron.Bell@NM.com)



**CPAF**  
 Cannataro Park Avenue Financial  
 Commitment. Integrity. Results.



**Northwestern Mutual**  
 Wealth Management Company®