

## Defining the Term “Trusted Advisor”

What does the term “trusted advisor” mean? It is easy for someone to say they are going to act as your trusted advisor but how do you tell if someone is really acting or is capable of acting as such a trusted advisor? Are there definitions of this term that we can helpfully turn to?

First, let us start with the distinction between someone who is selling you a product compared to someone who is purely giving you advice. You need to be careful to make sure that you look to the substance and not to the label. Beware someone who is purporting to provide you with advice, but in substance is there to sell you a product.

Second, there is an excellent book called *The Trusted Advisor*<sup>1</sup> that talks about the trusted advisor role. One of the interesting things about this book is that it contains a simple but powerful formula for working out whether trust exists in an advisory relationship.

The Trust Equation is as follows:

$$T = \frac{C + R + I}{S}$$

Where

T = Trustworthiness

C = Credibility

R = Reliability

I = Intimacy

S = Self-orientation

Regarding the factor of self-orientation, *The Trusted Advisor* says: “There is no greater source of distrust than advisors who appear to be more interested in themselves than in trying to be of service to the client. We must work hard to show that our self orientation is under control. The most egregious form of self orientation is, of course, simple selfishness, being ‘in it for the money’ ....”

---

<sup>1</sup> *The Trusted Advisor* by David H. Maister, Charles H. Green & Robert M. Galford Free Press

Third, James E. Hughes Jr in his second book on family governance, *Family: The Compact Among Generations*<sup>2</sup> analyses the role and characteristics of a trusted advisor to a family, what Hughes refers to as the “*personne d’confiance*”, as distinct from a “*personne d’affaires*”. Hughes writes:

*“Personnes d’confiance almost always begin their careers as personnes d’affaires. ...They’re [i.e. personnes d’affaires] generally persons providing families with financial products, goods and services, which the family needs for the dynamic stewardship and conservation of its financial capital. Generally, they are not in the business of seeking to grow the family’s human and intellectual capital, nor are they personally energised by the family.... Once they have had success in serving the family’s financial needs, some personnes d’affaires begin to experience a strong conviction that they could be of more service to the family if they could help with the growth of its human and intellectual capital”.*<sup>3</sup>

So not every advisor is a “trusted advisor”. To Hughes, one of the distinguishing features between these two different types of advisors is the question of timeframe. The *personne d’affaires* is there for the transaction, for the short-term. The *personne d’confiance* is there to help the family with its transitions, and to help the family think and plan for the long-term. The *personne d’affaires* has a time frame in mind of a quarter, or one financial year. The *personne d’confiance* has a time frame in mind of 10 years as a minimum, 25 years or 100 years.

Fourth and finally, when looking to define “trusted advisor”, it is also helpful to think about a fiduciary relationship. After all, the term “fiduciary” comes from the Latin *fiducia*, which means “trust”. Where there is a fiduciary relationship, at common law, the fiduciary is required to act only in the interests of his principal. The fiduciary is not allowed to put himself in a situation where there could be a conflict between his duty to his principal and his own personal interests; a fiduciary is prohibited from serving two masters at the same time in relation to the same transaction; and a fiduciary is not allowed to personally profit from their position. In addition, any confidential information received by a fiduciary cannot be disclosed without consent.

---

<sup>2</sup> Bloomberg Press

<sup>3</sup> And so these persons begin the sometimes difficult transition from being a *personne d’affaires* to a *personne d’confiance*.