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Why Do Good Clients Reject Good Advice?

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Why is it tough to convince clients to make a change, even when the status quo is counterproductive, imprudent, or downright harmful? Why do clients cling to an idea, even when a sound financial analysis clearly points in another direction? In short, why do good clients reject good advice and how can we help them to be more open to our counsel?

As a consulting psychologist I can appreciate why business advisors might ask such questions. Frustrated therapists sometimes quip, "everyone wants things to be different, but no one wants to change." The fact is most people prefer some degree of consistency in their lives, even if it means rejecting good suggestions.

The intent of this paper is twofold: To examine why people resist sound recommendations, and to offer business advisors clues about how to overcome such resistance. Seven common scenarios are presented followed by my comments. To ensure confidentiality each scenario represents an amalgam of clients.

Unrealistic expectations

The Situation:
Ben and Kevin are the founders and equity partners in a general dentistry practice consisting of six dentists. Ben and Kevin's friendship began in dental school. Three years after graduating they pooled their resources and started a partnership. They took office space in an area that was becoming popular with young families, and they launched an intensive five-year campaign to establish a client base. The effort was successful and they soon brought on a colleague to help with the patient load. Over the next thirty years the practice grew steadily.

Taking advantage of a dip in the commercial real estate market, they purchased a small office building and they recruited three additional dentists. Now in their early 60's, Ben and Kevin are working fewer hours and they've begun talking about selling. Their attorney connected them with an advisor who specializes in the sale of healthcare practices.

After weeks of analysis and meetings with Ben and Kevin, their advisor presented the partners with a recommended target price and some options for how to structure the sale. Ben and Kevin were convinced that the practice was worth at least $25,000 more but they reluctantly agreed to move ahead. Over the next year their advisor brought three different potential buyers to the table, but all of them challenged the target price. They contended that the practice was now mature and it had little growth potential compared to practices that included cosmetic dentistry. They also noted that the office interior and major equipment had not been updated in ten years. Ben and Kevin were unmoved. They knew what it took to build their practice and they were not going to sell it for a penny less than the target price they had set. The advisor became frustrated with his clients, feeling that they were unreasonably rejecting what the market was clearly saying.

Consultant's comments:
I might begin the consultation by asking the advisor to describe Ben and Kevin. Chances are the description would include terms such as "professional, accomplished gentlemen." Indeed, Ben and Kevin have accomplished something, but they are looking backward. Because they are in a selling mode, Ben and Kevin are not thinking about the future value of the practice and yet that's <u>exactly</u> what the potential buyers are thinking about. The buyers' offers reflect the perceived value of the business from this point *forward*. To Ben and Kevin, these offers probably feel like a negative commentary on what they accomplished *previously*. The advisor ought to gently point out this distinction, and perhaps it should have been discussed even before the offers were presented.

That said it is unlikely that Ben and Kevin will be able to easily or completely shift their perspective. They will continue to feel as if their "baby" is being evaluated. Their advisor will need to find thoughtful ways to address the emotional aspects of this process. For example, although the buyers might have legitimate concerns about future growth potential, these should be conveyed in a respectful manner that also acknowledges the valuable aspects of the practice. Ben and Kevin could stipulate that they be allowed to help craft the formal post-sale announcement letter to patients, introducing the new owners and more importantly, highlighting the history of the practice.

Reluctance to delegate

The Situation:
Roger is the founder and president of an eight-person architecture firm specializing in residential design. The firm recently won a high profile award for its work on an urban infill lot, and Roger was hoping that the publicity would help attract clients. At the same time, he was a bit anxious about whether he would be able to handle much more growth. He was already feeling overwhelmed at times between supervising the work of his team, managing the books, and developing new business. Roger recently turned 36, prompting him to think seriously about what he wanted his firm to look like by the time he was 40. He hired a business advisor to help him reach his goal of doubling both revenue and staff in the next four years.

Roger's advisor quickly recognized that in order for the firm to grow, Roger would need to focus most of his energy on new business development. It was something he enjoyed and did well (on those rare occasions when he was able to carve out the time to do it). If Roger was going to concentrate on bringing in more business he would need to promote one of his staff to a supervisory position. His advisor also suggested that he bring aboard a part-time CFO to manage the firm's finances. Roger concurred with his advisor, and they agreed that by their next meeting Roger would have a colleague in place to supervise operations, and he would have some potential CFO candidates lined up.

Six weeks later, Roger gave a resigned shrug when his advisor inquired about his progress. He said, "I've talked with my three most senior people and none want to take on supervisory responsibilities, and the part-time CFO's I've met with have no experience with residential architecture firms." The advisor was puzzled. He found it hard to believe that Roger's people wouldn't eagerly accept a promotion, and he questioned whether a part-time CFO would really need the sort of experience Roger was asking for. The advisor wondered to himself, *is Roger really on board with this plan?*

Consultant's comments:
Based on his behavior, Roger seems ambivalent (if not downright reluctant) to delegate supervisory and fiscal responsibilities. Is he even aware of this? Assuming that Roger cannot readily acknowledge this obstacle, it's up to his advisor to help him see it. It would be unwise to directly confront Roger about his failure to delegate. You can't push a rope, and it's unlikely that simply telling Roger to delegate more will do the trick. Unless Roger recognizes the connection between his behaviors and how they impact progress toward his goal, he won't develop the insight he needs in order to change. For example, his advisor might ask, "if you're unable to convince someone to take over your supervisory responsibilities, how will that affect your ability to double your revenue?"

Similarly, Roger's insistence that a part-time CFO candidate have specific experience with a residential architecture firm seems excessive. It reflects his reluctance to delegate, but here too a head-on argument is unlikely to sway him. Instead, his advisor should connect his behavior to his goal, asking, "how will you double in headcount if you can't find a part-time CFO?"

Were Roger's colleagues truly not interested in a promotion? What took place in those conversations? Did Roger present it as a positive developmental opportunity or did he position it as essentially more work for the same salary? Did he make it clear that he would be diverting his energy elsewhere, or did he leave the impression that he would continue to oversee the day-to-day professional activities of his team? The advisor could ask Roger about these conversations and help him reassess how he might have come across.

Once Roger begins to take some steps towards delegation, it will be important for his advisor to acknowledge the progress. At that point he can also explore any discomfort on Roger's part that might cause him to sabotage the steps he's taken thus far. For example he could say, "Roger, I'm glad you were able to find a suitable CFO. It's a big step to let someone else take on some of your financial responsibilities. How does it sit with you so far?"

Rejecting bankruptcy

The Situation:
Carl and his wife Janice had always dreamed of someday moving to the bucolic, rolling hills of southwest Wisconsin. When Carl's job as an executive in the hospitality industry was eliminated, he and Janice made the decision to buy a 75-year-old inn located outside of Prairie du Chien. Their due diligence was thorough and the couple quickly settled into the business.

Unfortunately their vacancy rate was significantly higher than anticipated. Three consecutive warmer-than-average winters caused a drop in cross-country skiers in the area and budget cuts caused the closing of a nearby bike path. Carl and Janice remained optimistic as guests consistently posted glowing reviews about their property on various travel websites.

The numbers, four years into their endeavor, told a different story. Their business advisor reminded them that they were facing a balloon payment on their five-year mortgage. Repairs and upgrades to the inn had depleted all of their other available credit, and it was unlikely they would be able to affordably refinance the mortgage in the coming months.

Their advisor recommended that they consider bankruptcy. Carl, usually an equanimitable sort, angrily rejected the idea. As their advisor tried to walk the couple through the numbers once again, Carl curtly ended the meeting saying, "I'm not the sort of person who walks away from his commitments." Their advisor was at a loss about how to help Carl. It was like watching a train wreck unfold in slow motion.

Consultant's comments:
Because of the personal meaning Carl attached to the concept of bankruptcy, he is having difficulty looking at the situation rationally. It might be helpful for the advisor to probe for more information, saying "Carl, not only are there different types of bankruptcy, but the word itself means different things to different people. Tell me more about what it means for you."

Carl likely sees bankruptcy as a moral failing, as a statement about his worth now (financially and as a person), rather than as a vehicle for getting back on track. He may view it as a publicly visible sign that he has made costly mistakes and has failed as a businessperson.

To the extent that Carl believes that bankruptcy is a negative reflection about his character, he will be unable to embrace it as a means for steering through this predicament. He is focused on the word "bankrupt" as a <u>label</u>, rather than thinking about bankruptcy as a <u>tool</u> that can ultimately help him meet his commitments. Carl's advisor should point out this distinction, saying "there's a subtle but important difference between the word "bankrupt" versus the word "bankruptcy"; I wonder if you're applying all of your thoughts and ideas about the former to the latter."

It is also possible that Carl is struggling with the second chance that bankruptcy might afford him. Carl may have long-held beliefs that people don't deserve a second chance. This strict mindset is usually attached to rather rigid notions of blame and justification (e.g. those who foul up deserve what they get). The advisor should remind Carl that his business decisions were sound, and that no reasonable person can be blamed for the adverse effects caused by an extended period of unseasonably warm weather. The advisor might add, "don't you think that your employees deserve a second chance?"

Carl's exposure to business people who declared bankruptcy might be limited, and/or skewed in a very negative fashion. His advisor could explore this by saying "tell me about bankruptcy arrangements you've heard about." In Carl's mind, the most vivid example might be a memory from his youth about an unscrupulous neighborhood business owner who declared bankruptcy and then skipped town. If all parties are open to it, the advisor might introduce Carl to other business owners who used bankruptcy as a tool to regain their footing after the ground shifted beneath them.

No exit plan

The Situation:
Jerry is the founder and president of a disaster cleanup service. His firm employs thirty people across two locations in Northwest Indiana. One office specializes in hazardous chemical spills and the other serves residential customers who have water or smoke damage. Jerry is 62 years old, and for some time he has resisted his business advisor's efforts to discuss succession planning.

Jerry has a senior manager at each location, but he dismisses the idea of promoting either of them to president. He believes that they simply don't have what it would take to run the company if he stepped down. Jerry is reluctant to sell the business because he is convinced that a new owner would undoubtedly consolidate the two locations, modifying operations in a way that Jerry fundamentally disagrees with.

Jerry also figures that he would also need to stay on for at least six months after the sale, and based on his father's experience he knows that would make him miserable. Decades earlier his dad sold his furniture store to a large chain, and he was in fact miserable working there for the short period required. Jerry's business advisor is concerned. He worries that Jerry's failure to plan for the future will lead to a negative outcome for Jerry, his family, and for his employees.

Consultant's comments:
If you're a business owner, in the future you won't be. It's just that simple. There is no escaping the reality that eventually you will exit from your business. And yet very few business owners engage in proactive exit planning, failing to establish arrangements for a thoughtful transfer of ownership that protects their interests and the interests of other stakeholders including employees, vendors, and valued clients. There are many psychological obstacles that prevent business owners from planning for the future.

In Jerry's case he is operating under assumptions that may not be entirely true, and his advisor ought to challenge him. For example, just because Jerry believes that his managers aren't presidential material doesn't make it so. He has done nothing to test his belief, such as giving them stretch assignments to help them develop executive skills. He has not provided them with any executive education opportunities. He has not arranged for any sort of talent assessment to determine their potential to step into an executive role, nor has he provided executive coaching to help them up their game.

Similarly, Jerry is assuming that a buyer will take the business in a fundamentally new direction by consolidating operations and that he will be miserable working for the new owners. Psychologists refer to this as "fortune telling". Unfortunately, our confidence regarding our ability to predict the future is often much greater than our accuracy. Jerry is overlooking the possibility that he might actually find it interesting working under such circumstances. By basing his assumption on what he witnessed with his own father, Jerry has fallen victim to a cognitive error known as the *availability bias* (Kahneman, 2011). His father's situation was easily called to mind (more *available*), and therefore it carries greater weight for Jerry and makes it harder for him to recognize and acknowledge the possibility that the post-sale arrangement could turn out far more positively. His advisor ought to make this explicit by saying:

> "Jerry, what your dad went through was truly unfortunate. We can use your father's experience to help us plan wisely, but we shouldn't think of it as representative of the majority of post-sale circumstances. If we're thoughtful about how we structure things, there's no reason for you to end up being miserable."

Remaining in control

The Situation:
Alan is a 72-year-old businessman who sells construction equipment to the scrap metal and road building industries. He loves selling and he has no plans to stop. Yet over the past five years he wasn't doing the same volume of sales and his bank was pressuring him to repay a substantial loan. Alan was confident that he could "make a few big deals" and buy more time with his lender.

A combat veteran of WWII, Alan had overcome far more challenging circumstances than this. He had weathered multiple recessions and he even bounced back from bankruptcy in the 1980's, repaying his creditors in full. Alan was convinced that he could remain in business by virtue of his connections; he would continue to link buyers and sellers because he knew so many people in the industry. Of course the Internet had changed the marketplace dramatically; customers and suppliers found one another almost instantly online.

Alan's banker suggested that he try using the Internet as a resource to buy and sell equipment. Alan agreed, and he hired an assistant to set up his email and build a rudimentary website. Unfortunately, the outcome was nothing more than an online chart listing machinery and prices.

Consultant's comments:
People like to be in control of their circumstances. For example, research has shown that people will tolerate more pain if they believe it is predictable and that they can control the pain themselves (Geer, Davison, & Gatchel, 1970; Leahy, 2001). One way that Alan retained control was by hiring an administrative assistant who was nearly as computer illiterate as he was. As much as he claimed to want a web presence, he couldn't tolerate turning over control to someone who might take his operations online.

If an advisor is brought in to help bring Alan's business online, that individual will need to spend considerable time gaining Alan's trust. The key will be to find ways for Alan to remain involved and feel in control. Alan will also need reassurance that his approach to doing business can find expression on his website and that his digital presence will reflect his real world values.

The advisor should ask Alan to describe his approach to sales, his thoughts about pricing, and his philosophy about engaging customers. He should then speak with Alan about ways in which his website can incorporate his style. For example, if Alan always got a kick out of negotiating and if he has a knack for winning over new clients, then it might make sense to post some of his inventory with the phrase "call for a quote" rather than listing a set price. Once Alan feels secure that his website really represents his firm, he will probably feel more comfortable with other aspects of doing business online (e.g. advertising certain pieces of machinery on industry websites).

Risk Aversion

The Situation:
Shelly is the owner of a small company that produces custom laminated countertops. Several local architecture and construction firms relied on her products for their office build-out and retail projects.   Shelly's clients kept her very busy, to the point that she had a significant backlog of orders. Her business advisor pointed out that by operating a second shift she could make full, more efficient use of her facility, keep her clients satisfied, and potentially boost her profits.

Shelly recognized the logic of her advisor's suggestion, but she was reluctant to take this step. Her mind swirled with "what if's", all of them negative. What if she couldn't find skilled workers who wanted to work second shift? What if customer demand eroded shortly after she brought a second shift of employees on board?   What if there was a production problem during the evening when she wasn't there?   What if she couldn't keep up with the HR details (and potential headaches) that would arise from doubling her workforce?

Shelly's advisor gently tried to steer her back to looking at the opportunity costs she would incur by not ramping up to meet demand.   He reminded her that customers might walk if the backlog of orders persisted.   Shelly listened quietly. In her mind she felt trapped. She didn't want to alienate her clients, but adding a second shift simply felt too risky.

Consultant's comments:
In some respects, highly risk-averse people like Shelly resemble those who struggle with depression. For example, their decision-making stance anticipates and expects loss, they emphasize costs rather than balancing them with benefits, they focus on the near term, and they don't readily recognize past gains. Depressed people tend to underestimate their resources for dealing with a challenge. It's hard for Shelly to recognize that she has the skills to recruit and hire second shift employees. She seems to have overlooked the fact that several times in the past she successfully weathered changes in demand by adjusting her headcount. Her advisor should remind her that history suggests she is more resourceful than she thinks.

Depressed people tend to treat the *possibility* of loss as if it is a *probability* (Leahy, 2001). Losses are not discrete and compartmentalized; they cascade and lead to further problems. Shelly was convinced that the HR challenges would spiral beyond her control. Her advisor might ask her to consider "what is the likelihood that it would really become overwhelming, and what could you do before that happened?" The advisor might suggest that Shelly set up informational meetings with a couple of HR consultants ahead of time so that she would have a resource available if she needed assistance.

Shelly was worried about what would happen if a production problem arose when she wasn't there. Shelly pointed out a couple of incidents that occurred while she was away, once while vacationing in Europe and once while she was helping her parents move. Shelly is selectively focusing on negatives. By doing so she is overlooking the fact most of the time production flows smoothly without any serious glitches. Her advisor could remind Shelly that the problems she noted were eventually resolved by her staff, and given the volume of work the firm handles production problems have actually been few and far between.

Commitment to sunk costs

The Situation:
Tom and his business partner Lori own a farm and garden equipment dealership located beyond the suburbs of Chicago. Eight years ago they sensed that they were in the path of future housing growth, and they felt even more sure when a new interchange was funded linking their road with the nearby highway. They decided to shift their product mix, shedding their inventory of large farm tractors and focusing on home landscaping equipment. They invested a substantial sum renovating and expanding their office so that they could display indoors their inventory of garden tractors and zero turn riding lawn mowers. Within a couple of years this strategy seemed to be paying off and they developed an emerging reputation among area homeowners.

What Tom and Lori hadn't anticipated is that two "big box" retailers would soon build stores within a mile of the interchange. In addition to selling similar lawn care equipment for less than Tom and Lori, they also stocked a huge array of other home gardening products.

As their equipment sales started to decline, they met with their business advisor to discuss their options. Lori suggested that they change their approach. She felt that that since they couldn't compete on price their best option was to upgrade and expand their service capability, something the competition didn't offer. Tom argued that Lori's plan would be too costly to implement and that it would distract them from their focus on sales. He felt that they should launch an aggressive marketing campaign, shave their prices, and expand their inventory so that they could offer more variety than the big box competition. He made it clear to Lori that having invested so much thus far, he couldn't imagine switching gears. Their advisor was skeptical about Tom's idea but they all agreed to give it a try and reconvene in six months.

After six months there was no evidence that Tom's plan was producing any results. Lori was convinced that they had made a mistake. The expanded inventory and marketing blitz wasn't bringing more customers in the door, and one of the big box stores was matching their price on a popular line of mowers. Tom was unmoved. He argued with Lori and the advisor to give his plan another six months. "We've put money, time, and energy into this approach and we have to give it enough time to work. If we stop now, it means that everything we did so far is totally wasted!"

Consultant's comments:
Tom has made a big investment over time, but he is fixated on sunk (prior) costs rather than clearly evaluating the future benefits of his plan. According to Leahy (2001) people can become less fixated on sunk costs if they attribute part of the original decision to someone else. Tom may be able to break loose from the sunk cost trap if his advisor reminds him that everyone agreed to give his plan a 6-month try.

Even so, it will be tough for Tom to acknowledge that his 6-month plan was a mistake that compounded their problem. Tom's advisor needs to reassure him that although his plan didn't work out, it doesn't mean that he is foolish or that his decision-making is impaired. He could add,

> "Given what you knew at the time, it was reasonable to focus on the residential market. But conditions changed, you have different information now, and that's why it's important to reevaluate things with an eye to the future. If we conclude that your 6-month plan is not worth pursuing further, that doesn't mean everything was a total waste. Your original decision to pursue residential customers still makes sense, but Lori's service-oriented idea might help you attract more of them."

If Tom is still clinging to his sunk cost argument, his advisor might look for an opening to share this observation:

> "It looks to me like you're trying to make the unworkable finally work. Is it possible that you might be throwing good money after bad? We can determine how to proceed based on the past, or we can make this decision by examining the costs and benefits moving forward. Which approach do you think will lead to a better business decision?"

Final Remarks

It can feel frustrating when clients come to us for our best professional advice and then behave as if they never heard a word of it. Your clients will rarely make financial decisions based on the numbers alone. Each decision carries with it some degree of personal, psychological meaning that may not coincide squarely with the advice you're providing. If you can discern and make allowance for the psychological factors at play, you'll have a better chance of helping your clients act on your good counsel.

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