7 Steps to becoming an independent woman in the financial advising industry using an organizational design method

Female Financial Advisor Seeking Independence

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Michal Slate is a CFP® professional who has her MBA and MEd. She is currently pursuing her Doctorate in Strategic Business Leadership from Regent University. Michal is the founder and CEO of Lighthouse Financial Planners & Advisors, an independent financial planning firm headquartered in Medford Oregon. With 17 years in the industry Michal started as a captive insurance agent for a short time, then moved to an employee bank advisor for most of her career before launching her own firm in 2020. Michal is passionate about education and empowering women within the financial advisory industry. Michal is a consultant to young or transitioning financial advisors hoping to build a career that is suitable for their desired lifestyle, their values and convictions and represent the industry in a supremely ethical manner.

Abstract

The demand for financial advisors is growing, and the career path has a high potential for both financial and personal success yet navigating the best organizational design for the female financial advisor is complex.

The problem with the traditional employee model of financial advisor is that the lack of diversity and toxic industry culture make it difficult for women to find work satisfaction, evidenced by statistics such as: only one-third of financial advisors are women, 84% of financial industry executives are male, the percentage of female financial advisors dropped 1% from 2008 to 2018 with female financial services executives 20 to 30% more likely to leave mid-career[1] than any other industry resulting in an exodus of women who (committed to the industry) are seeking independence even if that means leaving the industry[2]. It's also been shown that women reported a higher level of career satisfaction working independently for a small or solo practice over a larger firm even if there was more financial success[3].

We will explore the various aspects of working as a personal financial advisor professional, as a woman and the strategy design elements of the organizational models available. The contrasting

models reviewed are employee versus independent as generalizations with the understanding there are several sub-models to choose from.

The employee model may be salary or commission based and could even be fee based. The independent model may be salaried as well or within a large firm as an independent group; however, the assumption made in this article is that the independent model is more of a solo practitioner or small group of independent advisors working collaboratively. By implementing the 7-step organizational design change process[4] a financial advisor can evaluate which model will work best for them; however, the research in addition to this author's personal experience leads to the conclusion that an independent strategic alliance design will meet the needs of those experienced female financial advisors looking to make a change without the need to build their own organization from scratch.

Female Advantage

Once a financial advisor has passed the early stages of career development and feel confident in their ability to serve clients, the next logical step is to think of ways to improve the business. The best way to improve a business is to implement an organizational design change; yet, working for a larger firm there are limits to how that change can occur. Perhaps the business of the advisor would be improved by pivoting to a more digital or sustainable business model, yet these decisions are not within the financial advisor’s control[3].

Holistic financial advising measures the economic consequences of a recommended strategy that can be crucial to assessing if the recommendation is appropriate or valid[5]. Today the individual financial life cycle typically consists of financial dependency, accumulation of assets and finally decumulation of assets; however, only a few decades ago American households relied on pensions meaning the concept of saving for retirement is a relatively new concept[6]. As individuals are seeking advice from financial advisors to help them save, invest, and plan for retirement, trust is a key factor given the high level of misconduct in the financial industry[7]. Success for men in the industry can be found by following the traditional cultural norms of school ties or boy's club activities[8].

When the right person is given the opportunity and guidance, success will follow; however, women are often overlooked due to unconscious bias, lack of thought, lack of community, lack of flexibility for women who have families[9], young children, or there is perhaps a lack of leadership that cares about those issues[10]. Women have reported a higher level of career satisfaction if they were working for a solo practice over a larger firm even if there was more financial success[2].

The culture of a firm whether large or small can have varying design models with varying compensation structures. These differences by themselves do not indicate a better way of providing financial advice from an ethical standpoint. It has been found that unethical behavior and practices are more closely tied to cultural problems within an organization than an individual's likelihood to commit misconduct based on compensation[6].

Clients are increasingly looking for help from a financial advisor who represents a culture of trust and education as more and more individuals are seeking a coaching model over purchasing a product[11]. Women are naturally stronger in the areas of trust building[4] and empathy[12]. Women who hold a designation such as the CFP® designation or the ChFC® have been linked to an even higher level of trust with clients in addition to the fact that women are seen as less likely to commit unethical acts[4].

Since many clients seek a financial advisor with these qualities due to the high level of anxiety that the initial process of financial planning can bring up[13], it seems logical that women are uniquely gifted and positioned to excel in the role of financial advisor, so why are female financial services executives 20-30% more likely to leave their jobs mid-career than their male counterpart[1]?

Why women may naturally seek the employee model even though it may not be the best choice

Adaptability is a key characteristic of successful leadership, and risk avoidance works in opposition. A financial advisor understands the importance of being flexible with clients regarding their financial lives; however, as women we statistically are risk averse, so how can we navigate the requirements of adaptability needed for organizational design change within our own businesses?[14]. There is an even higher risk avoidance when the woman is the sole or higher income earner for a household since in addition to their businesswomen typically have more responsibility at home providing a deeper desire for stability[10].

The fact that research shows women having a higher tendency toward uncertainty avoidance may be a contributing factor toward only 32% of financial advisors being women[15]. Some studies even show that having more gender diversity in boardrooms or organizational leadership may cause a negative correlation in risk comfortability[16]. To assist in overcoming uncertainty avoidance, remember that individuals seek out financial professionals for risk management as well as goal management. Applying that same basic risk and goal analysis we can conclude that risk is simply the uncertainty of outcomes from any given decision. Investment risk is measured using historical analysis and probability[17], so perhaps this will also apply to a business model analysis. Organizational decision making is based on the leadership's level of risk tolerance or uncertainty avoidance, and the more comfortable one is with uncertainty, the higher likelihood of success when combined with clear organizational vision and strategy[3].

An organization's social capital will benefit or impede the ability for all to excel. The financial industry is one of the hardest industries for women to have social capital due to organizational cultural norms such as boy's club or old school ties. Examples include golfing, drinking which are often designed to exclude women albeit not intentionally[7].

Lack of diversity and toxic industry culture make it difficult for women to advance under an employee model as a financial advisor, evidenced by statistics such as: 84% of financial industry executives are male, the % of female financial advisors dropped almost 1% from 2008 to 2018 with female financial services executives 20 to 30% more likely to leave mid-career than any other industry and it appears that the women committed to the industry are seeking independence[1].

7 Steps to becoming an independent woman

An organizational design change process

Women seeking a career in this field with a desire for organizational stability may choose an employee model where they can work for an established company that offers stability and benefits which work well for those seeking safety, social and psychological needs[18]. An independent advisor will have the opportunity to create the organizational strategy, structure, and design best suited to the values and objectives of the financial advisor.

The employee model may offer lower barriers to entry, a sense of community and safety for the individual; however, obstacles have been observed such as a lack of networking opportunities due to a school or boy's club culture enforcing the glass walls that may keep women from advancement[7]. An employee financial advisor will experience influence from the organization's life cycle[19] stage as well as its organizational strategy and design already in place while the independent model allows for more freedom in the areas of creativity and adaptability consistent with the individual's strategic purpose.

An independent advisor model can be more isolating or entrepreneurial, requiring higher tolerance for risk and perhaps even capital; however, this is not always the case. Choosing the right independent model will benefit from a coordinated effort, proactive management of transitions and standardization and specialization[20]. Specialization has been termed 'niche' in the financial industry whereas a simplified description may be clarity of purpose or the ability to make decisive decisions quickly, with focus and confident discrimination[12].

When deciding between joining or remaining at a larger established firm verse going independent or joining a smaller independent group, it is important to consider all aspects of the vision, values, goals, and tangible resources available such as technology even though the newest technology may not have a high impact on client satisfaction or work, life balance[21].

There may be regulatory factors to consider if the individual is looking for a stricter or less strict supervision structure such as an independent or RIA model that only must work within the state-run regulators versus a firm regulated by both FINRA and the SEC[22].

It's important to note that to navigate various applications within life-cycle theory, an organization must be very clear on their purpose[23]. Clarity around purpose has been proven to excel growth over time even though it can feel extremely risky to turn away from business that is not in alignment with said purpose[24]. Clarity may feel discriminatory; however, that is not a bad thing since this indicates a clear vision around what exactly is being done and more importantly, not being done within an organization's strategic direction[12]. When things go sideways or upside down, it is that clarity and willingness to innovate that causes the organization to be more likely to get through or even succeed further in a negative economic environment[25].

Some examples of innovation within the independent financial advisor space are revenue drivers such as retainer fees[26] that allow financial advisors to work with younger clients who may not have as many assets and therefore the competition for which is minimal[27].

It may or may not be important to the individual to succeed financially beyond their peers; however, working in or creating a culture that is enjoyable will have an increased likelihood of financial success, especially in this industry[28].

As an established financial advisor working in an employee model, it may be intimidating to think of starting over for the purpose of going independent simply for a higher level of satisfaction, in fact it could even feel selfish; however, the risk may not be as high as you think. Time in the industry works to your advantage as time has a high impact for positive outcomes within the life cycle of your business[29]. You may decide after your analysis that you are best suited exactly where you are. The practice of going through these seven steps can only help you improve your business as a financial advisor regardless of which business model you find fits your practice.

7 Steps:

Adapted from Organizational Design: A step-by-step approach[3]

Step 1) Assess your goals

The first step is to assess the goals of your business. Designing a business is ongoing as goals will change with new technology, market fluctuations and various other external factors; however, a formal design is a requirement to the fundamental success of your business. Who will you serve? How will you serve them? What revenue would you expect to receive from your business? What cultural or sustainability impact are you looking to achieve? These foundational goals can assist in creating a clear set of objectives that allow your business to be agile in times of uncertainty while sustaining a clear course of action for strategic objectives.

Step 2) Assess your strategy

The second step is to assess the strategy of your business. Strategy is the basic contingency for deciding the design of your business. We can't have structure without strategy as a firm's structure is the means while the strategy is the end. The structure will consist of the partition of tasks by roles, relationships, and the environment in which your business operates. The strategy will consist of various aspects such as your capital available to invest, your concern for the quality of advice you provide to your clients, the price level you wish to charge compared to your peers, your preference for product or process innovation and your desire for social responsibility. Keep in mind that innovation is critical to your strategy whether you have a desire to be innovative, as there must be an innovation component to your strategy. If innovation is not a term you are comfortable with, think of how you would react to any given situation such as a market downturn or regulation change as this will indicate your willingness to take advantage of a current situation or explore new opportunities for innovation.

Step 3) Analyze your desired structure

The third step is to analyze the structure of your desired business. What will your business look like? The structure of your business will enable your firm to perform well in the chosen goals, strategy, and environment. A structure that isn’t consistent with your strategy may cause opportunity losses or threaten your short-term efficiency and effectiveness and could impact your firm's long-term viability. Think of an organizational chart that sections off big tasks into smaller tasks by specialization or product type and indicates the communication patterns between departments. How decisions will be made, the chain of command, and the overall description of who does what and how they are rewarded.

Step 4) Assess your desired process and people

The fourth step is to assess the processes and people involved in your desired business. This step describes the process of how a business will perform the work of financial advising. How will tasks be broken down into responsibilities? The big task is to provide financial advice to clients; however, that task consists of smaller tasks such as compliance, marketing, investment management, sales, administration, and human resource management. The process of each task can consist of individuals, technology, or a combination of both. Tasks will also fall into judgment based where the decisions must be made based on experience and expertise.

Step 5) Analyze your desired coordination, control, and incentive structure

The fifth step is to analyze the coordination, control, and incentive structure of your desired business. Understanding your desired task management system, you can now design the way you would like those systems coordinated and the control requirements. You want your business to run smoothly, and this ensures that all the various parts work together in the direction of your strategic objectives. This is flexible based on the structure of your business depending on your desire for formalization or decentralization.

Smaller firms tend to be informal in the sense of written policies and procedures regarding decision making while larger organizations tend to be more formal and centralized. You can think of a family-owned practice where decisions are based on experience and culture versus a large financial institution where scripts are followed, and products are selected based on an algorithm.

The incentive structure desired for your business may be contrary to the firm you are currently working for, or it may be complimentary. Commissions, fees, or retainer models of incentives[30] are all options for the financial advisor. If employees are part of your business structure, will you offer incentives to them?

Some advisors choose a retainer model simply due to risk aversion or lack of comfortability with an incentive based on product or market performance. Other advisors only want to be compensated based on market performance and assets under management. Other advisors still feel comfortable being compensated transactionally, feeling uncomfortable charging for assets that have not been recently placed or repositioned. Choosing a compensation model will be tied to the risk comfortability of the individuals in your business since a pay for performance structure will attract more uncertainty comfortable individuals while a pay for behavior model may provide less pressure. Salary, bonus, increase based on skills or efficiency and profit-sharing are all methods of incentive compensation.

Step 6) Design your architecture

The sixth step is to design the architecture. Up to this point you have been assessing the areas and aspects of your business that best fit together with the vision and design you have.

Make a list of the current aspects of your existing business that align with what your ideal business structure looks like. Identify the areas that require change to fit with your desired outcomes.

The next step is to identify the most critical areas or those areas you feel are non-negotiable. Keep in mind that a firm you are considering may have most of what you desire with one area critical to your preference lacking.

There is a cost to staying where you are and there is a cost to making a change. Design an architecture for what could be changed where you are first.

Compare the possibilities at your current firm to the ideal design you have built for your business.

Determine the importance of what is existing and what requires change.

You will want to look at both the difficulty and the sequence of each proposed change.

With a clear list of criteria, it would be advantageous to interview other firms to find out how they navigate these areas.

This process of interviewing will allow you to experiment various design changes without making actual changes.

Step 7) Implement your architecture

The seventh step is to implement the architecture. You have now decided on what is most important to the future of your financial advising practice and how you would like to build your business going forward.

An assessment of your strengths and weaknesses will greatly benefit the decision-making process of whether you should, remain where you are, join an existing firm with similar values or if you should launch your own firm such as an RIA.

Hopefully you have established a sequence of steps that will minimize the disruption of revenue and client experience yet understand the benefits of making changes that will greatly benefit the long-term success of your business over short-term disruptions.

This will be a project-based transition with a clear process of change attempting to keep things as business as usual for the client. If you are staying at your current firm, then the change will be minimized for the clients you will continue serving. If you have decided to move firms, there must be a clear sequence that allows for resources to be put into place as needed. You will want a clear description of what, who and when.

What: the activities that need to be done as well as the framework and detailed activities.

Who: the people who will be involved and the responsibilities assigned, with resources allocation.

When: time management is essential in the implementation phase as you will want to have clearly defined deadlines and milestones to assess and reassess your progress.

Congratulations!!!

You have now completed the steps to designing your business as a financial advisor. My hope is that you have a clear understanding of your natural strengths and obstacles as a female financial advisor and that you are confident in the next steps you should take in your career.

Conclusion

Working as an employee advisor for a large firm that exemplifies the self-organized, holacracy design; has a consistent decision-making system with rules set from the top while employees are free to implement discretion so long as they are present at every meeting to receive updated information on what decisions are being made on their behalf[3].

An independent firm can either create its own self-organized design (RIA) or work as a strategic alliance utilizing resources from either another independent firm or broker-dealers who support this model[3].

High risk avoidance, desire for stability or comfort within a larger organization may cause a traditional employee model to be favorable to the female advisor seeking success while a strategic alliance can provide many of these benefits with less downside.

Social capital within an organization may be positive and the advisor is satisfied with the culture, community, or comradery of the firm.

For the female financial advisor who is feeling dissatisfied with the culture, the hierarchical structure, decisions being made, length or lack of value of meetings, toxic communication, or cultural norms an independent advisor model may be worth considering.

By exercising the seven steps to understanding your desired business design you can now feel confident in the decision to remain at your existing firm or seek alternative options.

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