Organizational Leadership and Engaging Millennials in Wealth Management

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Executive Summary

The millennial generation, born after 1980, will represent the next largest population next to the Baby Boomers and are estimated to be worth over $24 trillion and inherit an unprecedented $41 - 59 trillion in the next 10-30 years. This generation was born into the internet age and has unique requirements for quick and accurate information. Corporations no longer provide lucrative pensions forces Millennials to rely on their savings and investment strategies within their retirement accounts. The wealth management industry can capitalize on the wealth provided by this generation and their unique requirement for advice by providing education, mentoring, and leadership throughout their lifespan. Based on the research conducted by the author wealth management organizations can utilize the strengths of being a divisional structure and provide value-added guidance to their clients by hiring Millennials, conducting customer prototyping, and employing reverse mentoring. Recommendations for employing these techniques include exploiting the path-goal theory at the corporate level, leader-member exchange theory and transformational at the sector level, and skills approach at the field level.
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Introduction

The millennial generation is the up and coming most lucrative client for the wealth management industry in the next few decades. The worldwide net worth of this generation is estimated to be over $24 trillion and will be inheriting over $40 trillion in the next few decades (Leonhardt, 2015; Wadhwa, 2016).

The problem is that this generation will not receive lucrative pensions from their employers and will be totally dependent on their savings and investment strategies in order to sustain themselves during their retirement years. The wealth management industry can embrace this necessity and include in their strategic planning organizational changes and effective leadership to build relationships now and maintain for the lifespan of this generation (“Millennials Manage Their Finances,” 2015). This problem can be solved by steering the strategic planning of the wealth management industry by implementing leadership models at all levels in order to institute organizational changes to accomplish the goal of engaging the millennial generation in wealth management strategies.

This paper will examine the motivations and needs of the millennial generation and how those will steer the strategic planning of the wealth management industry. Techniques to alter the culture of the industry and leadership models will also be presented that can be utilized for organizations to maintain competitive in the wealth management industry.

The author is a student at Central Michigan University pursuing a graduate degree in Administration with a concentration in leadership.
Background

The millennial generation or Millennials are the next largest population of individuals next to the Baby Boomers and are characterized by those who were born after 1980 (Havens, 2015, pp. 23-24). Each generation is influenced by significant events in their life that have a direct impact on human behavior. These are known as generational signposts (Johnson & Johnson, 2010, p. 4).

One of the most significant generational signposts for the Millennials was the Great Recession of 2008. During the period of December 2007 – June 2009 the United States economy endured the longest economic recession since World War II where stock market prices fell approximately 57 percent resulting in the loss of retirement funds which were heavily invested in the stock market (Schanzenbach, Nunn, Bauer, Boddy & Nantz, 2016).

The Millennials are also facing the basic requirement to have robust savings and investment strategies in order to produce a significant income to sustain them in their retirement years. Companies no longer provide generous pensions and Millennials must rely on their investment portfolio to sustain them during their retirement years in order to maintain their pre-retirement lifestyle (“Millennials Manage Their Finances,” 2015).

Millennials are estimated to have combined worldwide net worth in 2020 of approximately $24 - 35 trillion and inherit approximately $41 - 59 trillion in the next 10-30 years from the Baby Boomer generation (Leonhardt, 2015; Wadhwa, 2016).
Needs of the Millennials

Digital Communication and Accessibility

The Millennials were born into the technology age and are “comfortable with new technologies and rapid change” (Havens, 2015, p. 24). This generation prefers multi-channel venues such as Skype or Facetime, depends on online internet-based platforms to conduct business, and craves accessibility (Field, 2012).

Personal Relationships and Whole Life Advice

In a 2015 study conducted by the Columbia Business School disclosed that Millennials are more willing to share personal data than other generations when seeking financial management advice (Quint & Rogers, 2015).

In a 2017 study conducted by Simon-Kucher & Partners (“Simon-Kucher: About”, n.d.) disclosed that Millennials have expectations from wealth management organizations to provide guidance throughout one’s life from buying and selling a home, financing education, and savings and investment strategies for current and future needs (“Simon-Kucher & Partners Survey Highlights”, 2017).

A December 2017 study conducted by J.D. Power (“J.D. Power: About Us”, 2016) disclosed that Millennials require establishing personal relationships with their wealth management advisor, quick, accurate, and frequent information, and the utilization of texting and video chats (Colby & Bell, 2016).
Wealth Management Organizations

Organizational Structure

Wealth management firms such as UBS (Appendix A) and Morgan Stanley (Appendix B) have a divisional organizational structure. Advantages of a divisional structure include the ability to focus and adapt to their unique market, change strategies quickly and build cohesive teams (Robbins & Judge, 2017, pp. 502-503). Disadvantages include competition and poor coordination across divisions which deter from the overall objective of the organization and the removal of economies of scale (Robbins & Judge, 2017, pp. 502-503).

Techniques for Change

Specific techniques which can be utilized in changing the organizational culture to adhere to the needs of the Millennials include hiring Millennials, reverse mentoring (Marcinkus, 2012) and customer prototyping (Bentley, 2015).

Reverse mentoring involves the pairing of a junior Millennial employee with a senior employee. The junior employee acts as the mentor while the senior employee is the one being mentored. The junior employee imparts the generational requirements for success while the senior employee imparts their knowledge of the business. The reverse mentoring increases the leadership skills and emotional intelligence of both employees to achieve the objectives of the organization (Marcinkus, 2012).

Customer prototyping involves the identification of the needs of the customer. In the case of the Millennials, the requirement is to understand the savings and investment strategies in order to increase the education and provide suitable solutions for this generation. Utilizing
customer prototyping one can identify the unique requirements for this generation. Once the requirements have been identified the organization can develop a strategic plan ensuring the needs are fulfilled for this generation (Bentley, 2015).

**Leadership**

Leadership in this very dynamic and competitive environment is critical for success and is defined as a “process whereby an individual influences a group of individuals to achieve a common goal” (Northouse, 2016, p.6).

**Corporate Approach**

The division President at the corporate level articulates the objectives of the organization based on the results of the customer prototyping described above and influences his subordinates to implement a strategic plan for process improvements within their areas in order to be successful. This can be accomplished by the path-goal theory in which one inspires others within the organization to understand the environment and the need for organizational change in order to accomplish the corporate objectives and remain competitive (Northouse, 2016, pp. 115-136).

**Sector Approach**

Senior Vice-Presidents at the sector level within the divisional organization can utilize a combination of leader-member exchange theory and transformational leadership techniques.

The leader-member exchange theory will increase communication and interactions between senior leadership and employees. The employees are involved in the change process and more likely to buy-in to the changes (Northouse, 2016, pp. 137-158).
Transformational leadership traits used by senior leadership enables to trust senior leadership and therefore are more likely to buy-in to the necessary organizational culture changes (Northouse, 2016, pp. 160-193).

Field Approach

The reverse mentoring technique described above which is employed in the field can be facilitated by utilizing the skills approach to leadership. The skills approach focuses on what can be “learned and developed” (Northouse, 2016, p.43) and enables the development of technical, human, and conceptual skills required to be successful (Northouse, 2016, pp. 44-47).

Ethics

Ethics is essential and is defined as the “values and morals an individual or society finds desirable or appropriate” (Northouse, 2016, p. 330). Ethics is critical in order to maintain both a license and credibility within the wealth management industry. Financial advisors in wealth management companies are scrutinized and must maintain a level of ethics as described in the Certified Financial Planner Code of Ethics (“Revised Proposed Code of Ethics”, 2017).

Organizational changes will reflect the needs of the customer, however; the one providing the financial guidance must and should provide ethical advice which will build a lifetime partnership of trust (Duska, 2005).

Literature Review

The following is a literature view examining studies conducted and trends within the wealth management industry regarding the millennial generation.
Studies

In 2015 the Deloitte Corporation conducted research into the wealth management industry and determined that there were major factors that needed to be addressed in order for wealth management organizations to remain competitive in the industry. The factors which directly affected the industry were the aging financial advisors, Millennial generation’s requirement for technological savviness, and lack of trust in the stock market resulting from the Great Recession of 2008 (Vincent, Goldstein & Cunnif, 2015).

In 2017 Ernst & Young Global Limited published a three-year study regarding the digitization of wealth management corporations. The study was conducted by interviewing 30 senior Information Technology (IT) executives within the wealth management industry worldwide. The report disclosed that organizational changes must occur in upgrading their IT capability in order to tailor solutions for their clients (Birkin, Brown, Rummier, Bechi, & McLean, 2017).

In 2018 the Thomas Reuters corporation published a study called The Digitalization of Wealth Management. The study was comprised of interviews of 200 wealth management executives from North America, Europe, and the Asia Pacific. The study disclosed that the wealth management industry faces challenges and is not utilizing advances in technology such as artificial intelligence which has a direct impact on whether or not an organization can remain competitive in the industry (“Digitalization of Wealth Management,” 2018).

Trends

In a 2017 Paul Schaus published an article which described the requirement for “Robo-Advisors” based on the technological desires of the Millennial generation. The article disclosed
that Millennials currently have different financial requirements than the Baby Boomers. Millennials are concerned about current monetary obligations such as paying off student loans and mortgages, therefore; they are looking for quick automated financial advice not future wealth management direction. The article discusses the requisite to provide current financial strategies in order to build the foundation for future more lucrative relationships with the Millennial generation (Schaus, 2017).

A September 2015 article in the *Journal of Financial Planning* disclosed that many wealth management organizations are afraid to utilize technology. An organization change may be required to utilize tools such as “Robo-Advisors” to lure and maintain future Millennial clients (“Robo-Advisers”, 2015).

**Conclusion/Recommendation**

The Millennials were born into technology and are greatly influenced by the Great Recession of 2008 and are employed by organizations that are no longer offering pensions forcing the Millennials to be more prudent concerning saving and investing for their retirement. The Millennials will be worth approximately $24 - 35 trillion and inherit $41 - 59 trillion in the next 10-30 years. These factors have a direct bearing on the wealth management industry approach to luring and maintaining this lucrative client base.

Based on the research conducted the author recommends that wealth management organizations tap into the advantages of having a divisional corporate structure to implement organizational changes quickly by hiring Millennials, reverse mentoring and customer prototyping. The leadership techniques utilized to implement these changes are a path-goal theory, leader-member exchange theory, transformational and skills approach.
This need to educate, mentor, and provide lifetime advice will provide a much-needed requirement to alleviate the stress endured by this generation ensuring they will be able to provide for their current financial goals and live a well-deserved retirement.
References


Appendix A

UBS Organizational Chart

Source: https://www.ubs.com/global/en/about_ubs/about_us/ubs_group/group.html
Appendix B

Morgan Stanley Organizational Chart

Source: https://www.theofficialboard.com/org-chart/morgan-stanley