FACING CANADA'S NEW FINANCIAL REGULATIONS

AND THE WIDENING ADVICE GAP

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Abstract

This research is the first organisational case study conducted on a Canadian Financial Service Industry (CFSI) organisation faced with the widening advice gap stemming from the new financial regulations. The advice gap is an industry term used to refer to those investors who do not obtain financial advice from a financial advisor, because their investment account is too small or because they are unwilling to pay fees for advice. The aim of the research is to provide evidence to facilitate the development of options for financial advisors, at various stages in their career, to assist them with adjusting to the new regulations, thereby reducing the advice gap. A single case study methodology was used to examine the impact of the regulations in a real-organisational setting. The objectives were to interview advisors, clients, and executives of the organisation being studied (XYZ), and other external stakeholders to obtain their perspectives concerning the regulations as they relate to the advice gap. Themes were derived from the interviews, facilitating the development of an e-mail survey questionnaire sent to the entire population of XYZ advisors. The survey data was analysed using regression on the age and tenure of advisors, as well as statistical to obtain qualitative and quantitative data. From the interviews and survey data, evidence was provided which facilitated the development of advisor options for reducing the advice gap, based on the age and tenure of the advisor and whether they worked as a sole practitioner or as part of a team-based practice, allowing them to select the options relevant to their situation. The executive team was presented with these options and

interviewed again, allowing for additional feedback that would assist with moving the research into practice. Advisor options were: using Robo-advisor technology, the use of asset allocation in developing portfolios, collaboration within the entire organisation, client segmentation, online meetings, team-based practices, hiring a junior advisor, and the use XYZ's National Accounts Team. Executive options were: improving XYZ's fee-based platform, expanding and improving the National Accounts Team, continuing to explore and develop Robo-technology, improving entrepreneurial collaboration, providing advisors with asset-allocation tools, and improving support for advisors considering the move to a team-based practice. The ageing advisor demographics and the largest intergeneration wealth transfer that will take place in Canada make the investors with a small investment account (ISIA) relevant for advisor consideration. This segment will, through their personal accumulation or inheritance, become the large investment accounts in the future. The literature review examines similar regulations enacted in other countries. It also explores how Complex Adaptive Systems theory can assist the organisation with adapting to the new financial regulations. Given the entrepreneurial spirit of XYZ, the theory of intrapreneurship was examined, providing insights to develop creative and innovative solutions to address the advice gap. Technology was examined as it is disrupting the CFSI. This research will benefit members of the CFSI by reducing the advice gap and can provide insights to those in other countries facing similar regulatory changes.

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Chapter 1

1 Introduction

The intention of the research is to explore how one financial service organisation (XYZ), in the Canadian financial service industry (CFSI), can efficiently and effectively continue to service investors with a small investment account (ISIA). The new financial regulations in Canada concerning the transparency of fees and the proposed regulations concerning fee-based compensation and a fiduciary standard for financial advisors, are making it difficult for advisors to service ISIA, thereby leading to what is termed an advice gap between advisors of XYZ and ISIA. It is important that the new regulations impacting the CFSI and the advice gap are studied together as they are interrelated. The insights from the research will provide actionable knowledge, in the form of options for XYZ and advisors, to assist them with addressing the widening advice gap, ensuring that ISIA continue to receive advice.

The regulatory changes in Canada stem in part from the regulatory changes that have occurred in the United Kingdom (UK), United States (USA), and Australia (Langton, 2014b) and form part of an international drive to improve practice in the financial service industry. The regulatory changes have many positive aspects; however, they also have grave implications for financial advisors. One positive aspect is the attempt to restore investor confidence and trust in the financial service industry through the transparency of advisory fees, requiring advisors to become more accountable to clients for the fees charged and the services provided (Ontario Securities Commission (OSC), 2013a). Fee transparency and a possible move to a fee-based model could put downward pressure on compensation making profitability an issue for advisors (Langton, 2014a). Consequently many advisors in XYZ have started to move upstream (dealing only with higher net worth clients), which has widened the advice gap between the advisors and

clients of the organisation. Financial Inclusion Centre (2015) notes two reasons why an advice gap can occur. The first is that a number of investors may not be able to save enough to invest or may refuse to pay the fees for advice. The second is that many investors remain unserved by the financial service industry as the industry is inefficient to meet their needs. Therefore, the economics concerning the access and distribution of financial services is a key ingredient. The advice gap is not company specific but is being examined around the world where similar regulations have been enacted. The research will explore and provide options to advisors concerning how technology and the structure of an advisor's practice can improve efficiency, assisting XYZ with ways to address the advice gap.

Section 1.1 gives the aim and objectives of the study, 1.2 provides the contribution to knowledge, and 1.3 outlines the remaining thesis structure.

1.1 Aim and Objectives of the Study

The aim of the study is to provide options for financial advisors at various stages of their career to assist them with running more efficient and effective practices in order to service ISIA, reducing the advice gap.

The objectives of the study are:

1) To explore through a single case study how one organisation in the CFSI can address the advice gap
2) To explore the views of advisors, clients, executives of XYZ, and other external stakeholders, to provide different perspectives concerning the regulations, as well as providing context to the regulations as they relate to the advice gap

3) To derive themes from the interviews, to construct an advisor survey, and analyse the data to provide options that can assist advisors with addressing the advice gap
4) To present options to the executive team, providing an opportunity for the results of the advisor survey to be shared and discussed, potentially leading to a richer understanding of the issues, while ensuring the options can be put into practice

This study will not attempt to examine the net cost to clients from the various compensation methods used in the advisor-client relationship, as the intent is to determine how advisors can continue to service ISIA. However, the research will provide a review of the various issues concerning compensation methods and transparency which led to the new regulations. The research will also examine how, as a Complex Adaptive System (CAS) (Mitchell, 2009, p. 12), the case study organisation can utilise technology and the entrepreneurship in their organisation to improve operational efficiencies to overcome some of the operational issues resulting from the regulatory changes.

1.2 Contribution to Knowledge

This research is the first case study conducted on a financial service firm in Canada facing the new financial regulations stemming from the Client Relationship Model (CRM). The expectation is that these new regulations will improve transparency between the advisor and the client. The results of this research will provide valuable insights for XYZ and its members. It will also offer insights to other financial service firms, in Canada, trying to make sense of and adapt to the new regulations. The Canadian regulators will also gain insights into how the regulations are being addressed by XYZ with respect to ISIA.

The research will also fill some gaps in the body of literature. First, it will provide a review of how a CAS (XYZ) worked through the regulatory changes. Applying CAS theory to a financial service firm should alter the way in which organisational leaders view change. With a CAS it is not possible to see the final form of an organisation before it emerges, since a CAS with heterogeneous agents results in nonlinear outcomes (Stacey, 2011, p. 274). In addition to CAS, the research also explores how XYZ can embrace intrapreneurship, which is using the entrepreneurial skills in a complex organisation to market, create, and expand services (Cunningham & Lischeron, 1991, p. 47). Intrapreneurship was important to include given the entrepreneurial role financial advisors play in the organisation. Finally, the case study explores how efficiency and the economics of the business can be improved by utilising new technologies, thereby, assisting the organisation with addressing the advice gap.

1.3 Thesis Structure

The remainder of the thesis is presented in the following chapters. Chapter 2 discusses the regulatory background and my personal reflections concerning the issues facing XYZ stemming from the new financial regulations. Chapter 3 presents a review of the literature covering the regulatory changes taking place in various countries, while also providing an overview and history of CAS, and how both the financial service industry in Canada and XYZ can be considered a CAS. The topic of entrepreneurship is explored as it was one of the common themes from the advisor interviews. A review of new technological advancements in the financial service industry is discussed, since technology could be utilised to assist with addressing the new regulations and for improving practice efficiency, which may assist in providing a potential solution for dealing with the advice gap in XYZ. Finally, an in-depth look at what is considered a small investment account and the profile of these account owners is examined, as this is where the research interest is directed.

Chapter 4 presents the methodology and discusses my philosophical approach to the research through the use of the action-research methodology using an organisational case study. Chapter 5 presents the development of the interview questions which were informed from the literature review, while providing the data collected from clients, advisors, the executives of XYZ, and external stakeholders. Chapter 6 presents the development of the questionnaire plan, the themes examined in the questions and the types of questions used to gather the responses, while also providing insights into the techniques used to improve the response rate. The results from the data collected and analysis are presented in Chapter 7. Chapter 8 presents recommendations to the advisors based on age and tenure, as well as recommendations to the executive team of XYZ. Chapter 9 reports the organisation's reaction to the research findings, in addition to the recommendations and conclusions to the research.

The figure that follows explains the structure of the thesis and illustrates the link between chapters.

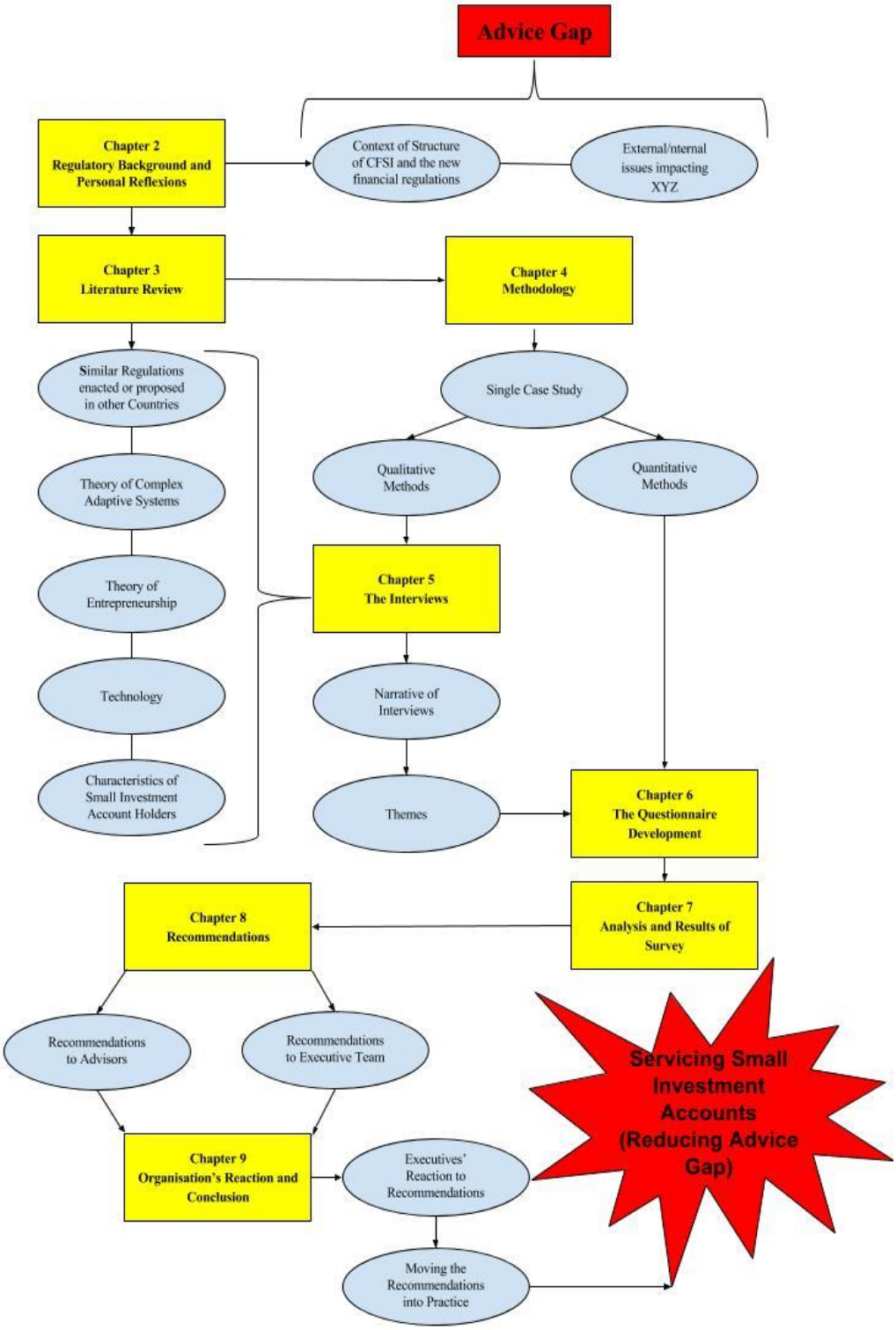

Figure 1.1 – Thesis Structure

Chapter 2

2 Regulatory Background and Personal Reflections

This chapter provides the regulatory structure of the CFSI and how the regulatory bodies were brought together through the CSA to harmonise efforts to introduce new financial regulations. The proposed regulations are directed at the abandonment of embedded commissions (trailing commission) and holding financial advisors to a fiduciary standard in their dealings with clients, will make it difficult for ISIA to obtain financial advice. These regulations bring into question the cost, investment returns, and responsibility of working with a financial advisor and provide insights into the external/internal issues advisors must reconcile in order to continue to efficiently and effectively service ISIA. Also provided is an overview of the delivery of financial advice and the various compensation structures used in the CFSI. I demonstrate that using Complex Adaptive System (CAS) theory and the theory of entrepreneurship; XYZ could reconcile the intersection of the internal/external issues to assist them with servicing ISIA.

Section 2.1 presents the structure of the CFSI, 2.2 my reflections, 2.3 a summary and how this chapter supports the rest of the thesis.

2.1 The Canadian Financial Service Industry and the New Regulations

Canada is a vast country and is divided into 13 regions, a southern band of 10 provinces and a northern band of 3 territories.

Figure 2.1 – Map of Canada

Each governed by a legislature whose areas of jurisdiction are clearly defined and jealously guarded. The CFSI falls under the jurisdiction of the legislatures and, as a result, there is no federal regulator, but rather 13 regulatory bodies, also known as securities regulators, responsible to their respective legislatures. As an example, the Ontario regulatory body is the Ontario Securities Commission (OSC) (2015), a self-funded Crown corporation accountable to the Ontario Provincial Legislature through the Minister of Finance. The regulatory bodies were joined to form the Canadian Securities Administrators (CSA) (2015), to harmonise their efforts. Initially, the CSA was an informal body, but in 2003 became a formal body, headquartered in Montreal, with a full-time Chair and Vice-Chair elected from the membership for a two-year term.

Assisting the CSA in its work are two prominent self-regulatory organisations (SROs). First, the Mutual Fund Dealers Association (MFDA) (2015), established through the initiative of the CSA in 1998. The MFDA is a non-profit corporation located in Toronto, Ontario, with offices in Calgary and Vancouver, responsible for regulating the operation, business conduct, and standards of practice of its 104 member firms and their representatives. The MFDA mandate is to enrich investor protection and strengthen

public confidence in the mutual fund industry in Canada. Second, the Investment Industry Regulatory Organization of Canada (IIROC) (2015a) established in 2008 as a non-profit corporation through the consolidation of the Investment Dealers Association of Canada (IDA) and the Market Regulation Services Inc. (RS). IIROC is responsible for setting and enforcing market integrity rules in the Canadian equity marketplace through proficiency standards, and for the business conduct of dealer firms and their registered advisors across Canada (IIROC, 2015b).

Currently, the CFSI is experiencing increased regulations stemming from the Canadian Securities Administrators' (CSA) (2012; 2013) new regulatory model (Client Relationship Model (CRM)). The purpose of the CRM is to improve transparency between advisors and clients, introduced in two phases, which have been named CRM I and CRM II. CRM I implemented in 2012 required financial advisors to provide clients with detailed information, in the form of a fund fact document, to improve the transparency between the advisor and their clients concerning investment performance, the costs associated with the investment, and the remuneration paid to the advisor's firm. CRM II, implemented between 2014 and 2016, is based on the regulations outlined in National Instrument 31-103 (OSC) (2013b)), about financial transparency and costs. In July 2014, advisors were required to discuss with clients the fees associated with buying and selling an investment before entering into an investment transaction. This regulation dovetails with the advisor's requirement to provide a client with a fund fact document. In December 2015, investment dealers were required to provide clients with an enhanced quarterly statement which provides the historical cost for each investment a client holds. While in July 2016, investment dealers were required to give clients an annual performance summary report that will include an annualised total percentage return, in addition to a statement of the annual charges, in dollar terms, paid by the client. The regulators may not stop with CRM II, but may continue with CRM III, which could apply to insurance and non-security related investments (DiSpalatro, 2014). Increasing regulatory compliance and transparency is complicated and can impact the way in which advisors structure their investment practices going forward.

It is relevant to understand the delivery of financial advice in Canada based on the advisor's licensing and compensation. Advisors in a client-facing relationship are licensed through IIROC, the MFDA, or through the insurance industry. IIROC-licensed advisors, depending on the level of licensing, are permitted to sell securities such as stocks, bonds, exchange-traded funds, mutual funds, Guaranteed Investment Certificates, and options or derivative investments. MFDA-licensed advisors are permitted to sell only mutual funds. Finally, insurance-licensed advisors are authorised to sell insurance products (life, disability and health insurance, segregated funds). There are also different ways (commissions, asset-based fees, salaries, fees for financial plans, annual or retainer fees, hourly fees) an advisor can be compensated (Weinstein, 2015, p. 80). First is through commissions when selling an investment. For example, on the sale of a mutual fund commissions are paid either through front-end (FE) commissions (ranging from 0 to 5% of the dollar amount being invested), or on a deferred sales charge (DSC) commission which is paid to the advisor's firm at the time of purchase (approximately 5% of the amount invested) from the fund company. Investors do not pay a fee directly under DSC. Instead, they are subject to withdrawal penalties for up to seven years. For commission sales, advisors can also receive compensation through trailing commissions embedded into the cost of running a mutual fund and form part of the management expense ratio (MER) of the fund (fund expenses divided by the assets under management in the fund). Advisors receive trailing commissions for the ongoing advice and service they provide their clients. Trailing commissions are calculated based on the advisor's assets under administration (AUA) with each fund company and vary from 0.20 to 1.25% annually depending on the type of mutual fund (money market, bond, equity, etc.). Another form of compensation is asset-based fees (fee-based), whereby the advisor would charge the client a fixed percentage, the norm in Canada ranging from 0.50 to 2.00% of the client's assets per year (Anspach, 2013). For example, this could be 1% per year on the total assets a client has invested with their advisor who is IIROC licensed. With asset-based fees, the advisor may choose to charge the same fee as the embedded-trailing commission, for example, 1%. The difference is that the fee would be collected directly from the client's account based on assets and not from the fund company, as is the case with trailing commissions. The asset-based

compensation eliminates the perceived conflict of interest, as these fees are not tied to a particular investment. Advisors can also be compensated through a salary; these advisors are usually junior advisors or work as an advisor in a Canadian bank. Those paid by retainer fees charge a fixed amount and charge annually, while some charge an hourly fee for services, and are also IIROC licensed. Advisors may also mix and match these compensation types depending on their licences and registration. Regardless of the compensation generated by an advisor, it is paid to the advisor's organisation and shared between the organisation and the advisor based on a compensation payout grid.

The CFSI's new regulations are important to consider for this research as they provide the background to the advice gap in XYZ. These regulations are informed by the measures taken recently or those being considered in the UK, USA, Australia, and Europe (Langton, 2014b). The topic of embedded compensation (trailing commissions) has also led the CSA to propose a legal fiduciary for financial advisors in their relationship with clients. The Ontario Court determined that a fiduciary relationship exists in the client-advisor relationship if vulnerability, discretion, trust, reliance, and professional codes of conduct are present (CARP, 2013, p. 4; Kivenko, 2012, p. 1). Presently, in Canada, no legal fiduciary requirement exists. Instead, advisors are required to follow industry codes and rules, requiring them to know their clients, know their products, and then present suitable investment choices (suitability standard) (CARP, 2013, p. 3). The introduction of a fiduciary standard would make the embedded-fee model redundant as it involves a perceived conflict of interest (Juan, 2013), which a fiduciary must avoid. It is clear that regulators have a mission to overhaul the CSFI, as they have proposed the abandonment of trailing commissions (embedded-fee model), in favour of a fee-based model. Doing so would eliminate the conflict of interest allowing the regulators to pursue a fiduciary standard. The unintended consequence could be a widening of the advice gap, should advisors choose to deal with only wealthier investors.

2.2 Personal Reflections

Using reflection-in-action and on-action (Schön, 1983) provided me with a clearer understanding of the issues facing the CFSI. Through collaboration with industry partners, my reflection provided a process to challenge my experiences and beliefs as a financial advisor concerning the issues facing XYZ. It was apparent that the new regulations impact XYZ externally, through membership in the CFSI, and internally through the processes and strategies XYZ will be required to develop to adapt to the new regulations to address the advice gap. The research focuses on the intersection on these external/internal issues stemming from the new regulations and the widening advice gap occurring in XYZ.

Externally, the new regulations have firms and advisors struggling to understand the impact to the business. For example, with an embedded-fee model (trailing commissions), one could argue that the clients with large investment accounts have been subsidising ISIA. However, a change from an embedded-fee model to a fee-based model may result in the unintended consequence of advisors only dealing with affluent investors. In a survey conducted in the UK after regulatory changes regarding compensation, Clare et al. (2013, p. 8) determined that the average number of clients an advisor expects to service will be 150, while the advisor expects to receive on average £1,472 per year per client. Based on a 1% fee this would equate to an advisor choosing to deal with clients with a minimum of investable assets of approximately £150,000. This research is being examined in Canada and has led to a discussion concerning who will service clients that do not meet an advisor's minimum account size. This concern is relevant as ISIA now will through their personal accumulation of wealth or an inheritance, be the large accounts in the future. The CSA mandate to improve the transparency of costs and performance through CRM II and the proposed fiduciary duty could create difficulties for advisors, leading to a widening advice gap in Canada. Sandy Martin, senior vice-president and chief compliance officer with the investment dealership Raymond James Ltd., feels that that new regulations will push advisors to

fee-based or transaction-based accounts, making it difficult for ISIA to afford advice, whereas Tom Bradley, president of Steadyhand Investment Management Ltd., suggests that the regulators should eliminate trailing commissions altogether and sees the industry going through a “seismic shift” (Luukko, 2014). These changes, singly or in combination, bring into question the cost, investment returns, and responsibility of working with a financial advisor. They also put into question the future role of financial advice and who will benefit from such advice.

During a conversation with a senior executive of XYZ and one from the organisation’s parent company, they both voiced concern as to how they would prepare their organisations for the future of financial advising in Canada. They spoke about Robo-advising (algorithm-based financial advice) and how this form of advice is less expensive (Barlyn, 2014) than a fee-based advisor and may outperform most mutual fund investments given the low cost associated with the Robo-advisor’s use of exchange-traded funds. XYZ announced to the Canadian marketplace, in 2015, that they would introduce a Robo-advisor. Many firms are developing a strategy called Robo-shielding, in which companies will prepare advisors to embrace technology, streamline operations, improve client service, and maintain their profitability given the more transparent and price-aware marketplace (Fox Financial Planning Network, 2014). Companies could offer Robo-advising as an additional service to small or do-it-yourself investors, or as a tool to close potential compliance gaps in the advisor-client relationship, such as those involving limited or undocumented investment processes or strategies.

At the intersection of these external/internal issues is the ability of XYZ to address the new regulations, those being introduced, and the proposals by the CSA to abandon embedded fees (trailing commissions), and create a legal fiduciary standard for financial advisors. This has me viewing XYZ as a Complex Adaptive System (CAS) (Stacey, 2011, p. 244). The ‘dominant discourse’ suggests that the management of an organisation can use their control to bring an organisation back into equilibrium (Burrell & Morgan, 1979). It also suggests that the regulators and the executive team of XYZ are

not in full control and cannot see how these new regulations will impact the industry and their organisation going forward. However, a CAS cannot see the final form before it emerges since a CAS involves the interaction of heterogeneous agents which create nonlinear outcomes (Stacey, 2011, p. 274). The research will examine how the theoretical framework of CAS could be used for change management by XYZ to evolve with the new regulations.

The research will also explore entrepreneurial theory. It was John Stuart Mill who suggested that an entrepreneur is someone who is not only a risk-taker but who can also provide direction to an organisation (Mill, 1899, pp. 388-389). Cunningham & Lischeron (1991, p. 47) note the various approaches for describing entrepreneurship; one approach was the intrapreneurship school, which uses the entrepreneurial skills in a complex organisation to market, create, and expand services. The theory of intrapreneurship is that entrepreneurial activity within an organisation can assist the organisation with adapting and surviving. Finally, they mention that intrapreneurship is best suited for situations facing mature organisations or organisations facing change. Given the plethora of regulatory changes and the introduction of Robo-advisors, perhaps an opportunity exists for XYZ to embrace the rich entrepreneurial spirit of their financial advisors to reconcile regulatory changes to embrace and prepare for the future role of a financial advisor in Canada, ensuring that ISIA continue to receive representation through access to financial advice.

The fear among advisors is that the new regulations may result in the regulators and investors forming an opinion that advisors do not offer value. However, Cockerline (2012, p. 20) presents empirical evidence that “having a financial advisor contributes positively and significantly to the accumulation of wealth.” Grace (2014) provides a practitioner’s summary of the working paper by the Ivey Business School (University of Western Ontario, London, Ontario) on the costs and benefits of financial advice, which presents empirical evidence concerning the value investors can obtain from receiving financial advice. This research provides evidence that financial advisors will be around in the future, despite pressures from, for example, Robo-advising. Advisor.ca (2013)

reports how the proposed amendments put forth by the CSA will result in advisors having to work harder as they will have to adjust to the coming changes by improving their efficiency. Many advisors are beginning to create a 'unique value proposition' for their practices (Klimek, 2010) in an attempt to explain the value they offer for the fees charged.

The CFSI is itself a CAS, which involves heterogeneous agents interacting with one another. Through the use of an organisational case study, this research will examine how XYZ can address the external/internal impacts stemming from the new regulations. The study will present how embracing corporate entrepreneurship (intrapreneurship) in the organisation could lead to greater creativity and innovation to reduce the advice gap.

2.3 Summary

The new regulations, stemming from the new model introduced by the CSA through CRM I and II, have brought into question the cost, investment returns, and responsibility of working with a financial advisor. The transparency of fees and investment performance, the potential move to a fee-based model, and a fiduciary standard will impact the way advisors structure their practices going forward. XYZ is already witnessing advisors choosing to only deal with more affluent clients. I examined the external/internal issues facing the industry and XYZ stemming from the new regulations. The external issues require advisors to understand how the regulations will impact their practice, while the internal issues will require advisors to develop processes and strategies to adapt to the new regulations so they may continue to service ISIA efficiently and effectively. The theoretical framework of CAS was discussed as a way for XYZ to adapt to the new regulations and for change management, while harnessing the intrapreneurial spirit in the organisation will lead to creative and innovative solutions for continuing to service ISIA.

Chapter 3 reviews the literature concerning the regulations enacted or proposed in other countries, providing guidance for those in the CFSI facing similar regulations with insights to reconcile the external/internal issues brought about by the Canadian regulations. CAS theory is examined as a way for XYZ to reconcile the new regulations, through organisational collaboration using the technology. The theory of entrepreneurship is explored as a way to harness the intrapreneurial spirit of XYZ to develop innovative and creative ways to continue to service ISIA. To date, current and emerging technology is viewed as disruptive, but I show that, if embraced, technologies such as, Robo-advisors and the use of Customer Relationship Management software can improve efficiency and effectiveness of an advisor's practice allowing them to continue to deal with ISIA. Finaly, the characteristics of the ISIA were examined to provide context to this segment of the Canadian market and how they pertain to this research. The literature also provided the research with insights for the development of the interview questions.

Chapter 3

3 Literature Review

This chapter examines the regulations that have taken place in Europe, Australia, and the USA, as these regulations informed the development of Canadian regulations. The Canadian regulations (CRM I and II) are examined in addition to the regulators' proposal for a fee-based model and a fiduciary standard. It is demonstrated that XYZ could use the theory of Complex Adaptive Systems (CAS) to reconcile the intersection of the external/internal issues stemming from the financial regulations, by unfolding the future of the organisation in collaboration, assisting XYZ with developing processes and strategies to continue providing service to ISIA. The theory of Entrepreneurship is presented as a way for XYZ to harness the intrapreneurial spirit in the organisation, to develop innovative and creative solutions, and to improve the effectiveness and efficiency of an advisor's practice. The literature makes apparent that new technologies being introduced have two divergent views: as competing with human advisors, or as novel means for efficiency for human advisors in specific contexts. I discuss the individual technologies and demonstrate how they could improve an advisors practice, specifically for ISIA. Also provided is an overview of the ISIA, using Canadian demographic data, as this is where the research is directed.

Section 3.1 discusses the regulatory changes in Europe, Australia, USA, and Canada, 3.2 explores the theory of Complex Adaptive Systems (CAS), 3.3 examines entrepreneurship and intrapreneurship, 3.4 explores the use of technology, 3.5 provides the characteristics of ISIA and the demographics of the owner of such account, while 3.6 summarises the main findings and how they inform the study.

3.1 Regulatory Changes in Europe, Australia, USA, and Canada

Like the Canadian regulators, the regulators and government bodies in other countries are trying to understand advisor compensation and whether improvements can be made to the transparency of fees, performance, and the services provided by advisors. Human longevity is one of the most significant public policy issues, as it has led to many financial challenges, while the emotional turmoil created by the global financial crisis, in 2008-2009, reduced investor confidence in the financial markets (BlackRock Viewpoint, 2014). These issues have been the catalysts for the regulators and government bodies to restore investor confidence in the financial service industry.

This information will assist XYZ with insights into the complexity of the regulations and what has and has not worked in other countries, before creating organisational strategies to address the regulations in Canada and the widening advice gap. Europe (3.1.1) is examined as a whole and more specifically the regulatory changes in the United Kingdom (UK) (3.1.1.1) and the Netherlands (3.1.1.2) as they were the first countries to enact significant regulatory change, in addition to a brief overview of some of the other European countries (3.1.1.3). Australia (3.1.2) is examined, as it was one of the first countries to adopt extensive regulatory changes. The inclusion of the USA (3.1.3) will explore their outdated regulatory framework that has led to numerous complex issues for regulators. Finally, the information on Canada (3.1.4) will provide an understanding of the changes facing the CFSI and XYZ.

3.1.1 Europe

The EU initiated the Markets in Financial Instrument Directive (MiFID) in two phases (MiFID 1 and MiFID 2). MiFID 1 was initiated in January 2008 with main objectives to increase consumer protection in the investment service industry by imposing compensation disclosure requirements and increasing competition (Inderst & Ottaviani,

2012, p. 238; European Capital Markets Institute, 2010). MiFID regulations are similar to those being introduced in Canada through CRM I and II, making their examination relevant. MiFID 2 implementation took place at the end of 2016 and continues into early 2017 (Weinstein, 2015), and focuses on the distribution and sale of investment products (other than life insurance), banning the receipt and retention of commissions by Independent Financial Advisors (IFA) and discretionary portfolio managers. However, MiFID2 will continue to allow commissions to be paid to restricted advisors (BlackRock Viewpoint (2013, p. 4). The independent advisor is someone affiliated with an independent contractor, whereas the restricted advisor is someone working for a bank or insurance company (Weinstein, 2015). The independent advisor has access to more products and product providers, whereas the restricted advisors, due to their relationship with one company, are restricted in the range of investment products they offer. XYZ advisors are considered independent advisors. MiFID 2 does not ban commissions paid on execution-only platforms, which would be those individuals who do not provide advice, but instead execute client trades (BlackRock Viewpoint, 2014, p. 6). This raised concerns that by allowing commissions on execution-only platforms, the development of an unfair competitive advantage could occur (Sullivan, 2011). The proposed banning of embedded commission in Canada presents a similar concern, given that bank advisors may be considered restricted advisors, while independent advisors unrestricted. Given that one of the objectives of MiFID is to improve competition, it could push the distribution of investments to less regulated channels (restricted, execution only) (BlackRock Viewpoint (2014, p. 1), destroying the competition objective of MiFID.

The banning of commissions through MiFID 2 for more transparent compensation models, such as a fee-based model, should provide investors clarity regarding the cost paid for advice. Similar to Canada, only the cost of advice has been made transparent, making it difficult for investors to determine the total cost. MiFID 2 also addresses the potential conflicts of interest that can arise from certain forms of compensation (Inderst & Ottaviani, 2012, p. 238), such as a commission-based model, which McCarthy (2014, p. 47) notes is a transaction model that “creates an unavoidable conflict of interest because advisors’ income derives from clients’ transactions”.

3.1.1.1 The United Kingdom

The Financial Service Authority (FSA, 2013a) was the predecessor of the Financial Conduct Authority (FCA). Between 2001 and 2013 the FSA's responsibility was to regulate the UK financial service industry. The FSA was responsible for the first phase of the new regulatory changes by launching the Retail Distribution Review (RDR) in 2006, to identify potential problems that could influence the quality of advice, consumer outcomes, and investor confidence and trust in the UK financial markets (Europe Economics, 2014, p. 6). The RDR was completed on December 31, 2012, with the first phase requiring advisors to provide their clients with clarity regarding the nature of the advice they would receive, the associated cost, and the way in which remuneration arrangements would be completed between product providers and advisors, and establishing platforms to align remuneration with the interest of the consumer (Europe Economics, 2014). RDR regulations are similar to Canada's CRM II. RDR also imposed new advisor qualifications and a ban on commissions between product providers and advisors, thereby requiring more advisors to adopt a fee-based model (BlackRock Viewpoint, 2014, p. 9). The fee-based model is being sought after by Canadian regulators, changing how advisors would receive compensation. There are other ways in which an advisor can charge for advice (time-based, task-based, based on a percentage of the assets, retainers, performance based, and contingency based) (J.P. Morgan, 2011, p. 17), and these must also be disclosed and agreed on by the client. Regulators feel that moving from commission-based to fee-based will make fees more transparent, making advisors more accountable for the services they provide clients. The banning of trailing commission in Canada could reduce choice for investors; it may not even be required since annual compensation statements will be provided to investors starting in July 2016, regardless of the compensation structure used.

After the global financial crisis of 2008, the UK government decided to restructure the regulation of the financial service industry by eliminating the FSA and dividing the FSA responsibilities between two newly formed agencies: the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The statutory objectives

of the FCA and FSA differ, in that the FCA has a ‘competition remit’. Deb Jones, the director of competition, notes that the competition remit gives the FCA power to enforce against breaches of the Competition Act (FCA, 2014). This power assists the FCA with those who abuse their privileged position whether through exploitive and exclusionary means. Inderst & Ottaviani (2012, p. 242) discuss the pros and cons of the recent disclosure regulations and the structure of commissions and found that firms who sell investment products under biased advice could generate the same financial benefit at a lower cost. Even in an industry with competition, there would be little competitive pressure to remove the exploitation of consumers. It is this type of research that provides support for the objectives of the FCA.

The FCA conducted a Post Implementation Review (PIR) to determine whether the objectives of the RDR had been delivered and the potential impact of the new regulations. The FCA concluded that professionalism among advisors improved, as more advisors increased their qualifications, and the membership of advisors in professional bodies increased (Europe Economics, 2014, p. 38). It is interesting that the UK had 40,000 financial advisors at the end of 2011, but only 31,000 at the start of 2013 (Clare et al., 2013, p. 3). These finding have created a concern that some investors may not be able to obtain financial advice given the reduced supply of advisors, leading to a widening advice gap. Europe Economics (2014, p. 58) explains the advice gap by defining three groups who may require investment advice: those unengaged (have financial means but not involved in the markets), those unwilling to pay (engaged in the markets but unwilling to pay for advice), and those unserved (have money to invest and will pay for advice but are unable to find a financial advisor). There is concern that advisors have begun to service customer segments that can afford advice, thereby reducing access to financial advice for the less wealthy market segment. Clare et al. (2013, p. 8) provide anecdotal evidence to support this concern and determined that an advisor expects to receive on average £1,472 per year per client. Basing this on a 1% annual fee, this would equate to an advisor dealing with clients with minimum investable assets of approximately £150,000. It was also noted that nearly a fifth of the UK advisors have asked their smaller clients to leave. Research by the fund manager

Schroders found that 69% of those clients requested to leave had investable assets below £50,000 (Oxlade, 2014; Walker, 2014). XYZ is already witnessing a widening advice gap stemming from the new regulations in Canada. However, Towers Watson (2014) was commissioned by the FCA as part of the PIR of the RDR to explore the impact of the RDR on financial advisors, and whether supply or capacity of advisors contributed to or resulted in an 'advice gap'. Their analysis indicated that 25,000 financial advisors would be required to service the UK industry, less than the 31,000 at the start of 2013.

The FCA determined that organisations have made progress in their responsibility for disclosure of advisor compensation and in the services offered. The FCA found that many consumers remain confused over the fees charged, which could imply that consumers are less likely to shop around leading to less competition between advisors (Europe Economics, 2014, p. 34). The FSA (2013b, p. 10) conducted a survey on 22 authorised firms between September 2010 and 2011 and found that 20 of these firms had compensation schemes that increased the risk of mis-selling investment products. Clearly, more effort is required to develop appropriate compensation structures and the articulation of compensation to investors. Investor confusion over fees is a concern in Canada, especially if all advice providers are not regulated the same. Fee disclosure in the UK has resulted in advisors focusing on their need to convince investors of the value and the level of service they will provide their clients (BlackRock Viewpoint, 2014). Given the new regulations in Canada, XYZ advisors have been working to articulate, demonstrate, and document the fees charged and services provided, which should improve the calibre of advice offered. The FCA also examined the cost associated with investments and advice after RDR and found that the cost of investment products had declined, but there appeared to be an increase in the cost of advice (Europe Economics, 2014, p. 82; Weinstein, 2015, p. 65). There is evidence in Europe that demand for investment advice is falling as more investors are going to Direct to Consumer (D2C) platforms (Europe Economics, 2014, p. 66). Although many advisors left the UK financial industry, the advisory firms that remained have had their revenue remain stable or improve after RDR (Europe Economics, 2014, p. 90). A reduction of advisors could

also occur in Canada, which could present opportunities for growth, but may also widen the advice gap.

3.1.1.2 The Netherlands

The Netherlands' Authority for Financial Markets (AFM) (2015) had the responsibility of supervising their financial markets since 2002, with the aim of creating a more efficient marketplace. Both the UK and Dutch financial services industries have similarities: they both regulated investment products lightly during the 1980s and 1990s, resulting in excessive charges and mis-selling (Linden, 2014). The Netherlands was a first mover on banning commissions. The AFM banned commissions, in January 2013, on mortgage credit, income insurances, unit-linked insurances, annuities, and non-life insurance, while an inducement ban on investment service (asset management services) to retail clients took effect on January 1 of 2014 (BlackRock Viewpoint, 2014, p. 9). This is different in Canada as banks and insurances companies have different regulators than the securities industry. When the Dutch did not comply with early regulations, the regulators took a more aggressive stance, which involved drawing a line between that of the manufacturer and the advisor through the abandonment of inducements to sell a manufacturer's product (Linden, 2014). These inducements come in many forms, such as the manufacturer paying trailing commissions to advisors who sell their products, finder fees, buying the advisor lunch, or other incentives to sell their products. Many of these inducements have been banned or limited in Canada. Similar to the UK, the regulations in the Netherlands resulted in a decline in the number of companies offering financial advice (11,000 in 2005 to 4,000 in 2014) (Linden, 2014). The CFSI is concerned that the new regulations could result in fewer financial advisors, potentially widening the advice gap.

The early adoption of these reforms stem from the fact that roughly 60% of the population in the Netherlands own a home, and in order for mortgage funds to be released by the lender, the homeowner is required to obtain life insurance (paying an

insurance advisor fee), which is assigned to the lender (Weinstein, 2015, p. 67). In Canada, life insurance is not a requirement for mortgage funds to be released to the mortgagee. It is clear that the Dutch took many years to develop their regulations making it more palatable for the financial service industry to adapt. The Netherlands has also limited the fee that can be charged on the value of an investment to 1%. Limiting the fee has led some to believe that the regulations are creating an 'advice gap' similar to that in the UK, as some cannot afford to pay for advice and will, therefore, be pushed out of the market, forcing them to invest on their own, presenting other problems (White, 2014). Canadian regulators should examine having a limit to the advisor fees, as it would create a level playing field for advisors and could improve investor awareness of the advisory fees charged.

3.1.1.3 Other European Countries

BlackRock Viewpoint (2014, p. 10) notes that France supports a commission ban for the discretionary portfolio manager and is awaiting the full adoption of MiFID 2 before moving toward the ban on the commission-based model, in favour of a fee-based model. Italy is also anticipating the adoption of MiFID 2 before proceeding to a possible dual system, allowing both fee-based and commission-based advisor remuneration. However, Germany, prior to the implementation of MiFID, has focused attention on the transparency concerning the cost of advice, whether that cost is in the form of commission-based or fee-based, with advisors required to disclose any other incentives they receive from product providers (Weinstein, 2015, p. 62). The difficulty with MiFID is that each country in Europe will have different terminology regarding what is considered a commission (BlackRock Viewpoint, 2014, p. 4). Only time will tell how these countries adapt to the regulatory changes being suggested by MiFID 2.

3.1.2 Australia

The Australian political response to restore confidence and trust in the financial service sector after the global financial crises was the introduction of the Future of Financial Advice (FoFA) in July of 2013. The political response stems from the fact that Australia has a compulsory superannuation system (defined contribution system) for retirement, making financial advice a vital service required by Australians (Facciolo, 2013, p. 308); this is not the case in Canada.

Through the introduction of the FoFA reforms, politicians aimed to improve the quality of financial advice and disclosure obligations of advisors, while also building trust and confidence in investors through standards that would align the interests of the financial advisor with their client to reduce conflicts of interest (Rajaretnam, 2015. p. 2). The Canadian regulators have a similar remit, as proposed regulations are aimed at eliminating any perceived conflicts of interest between an advisor and client. In addition to improving trust and confidence for the Australian retail investors, the FoFA reforms aim to "ensure the availability, accessibility, and affordability of high-quality financial advice." (Australian Government – The Treasury, 2015). Smith (2010, p. 37) mentions that the FoFA reforms had three key objectives: 1) the introduction of a (best interest) fiduciary duty, 2) the banning of some commission payments, and 3) requiring an opt-in mechanism for investors concerning the fees they pay. This approach is different from Canada, which is considering implementing a fiduciary duty. Before implementing a fiduciary duty, Canadian regulators are trying to ban embedded compensation, given the perceived conflict of interest from this compensation method. The Australian regulations provide some guidance to what may result in Canada through future regulations.

Canada currently has a suitability requirement for advisors, which many feel meets the test of best interest. The Coalition Government in Australia was able to press for changes regarding the fiduciary duty (best interest) obligation, as it was unclear as to

what constituted best interest. What does ‘interest’ mean? Now suppose we know what interest means, the adjective ‘best’ alters the meaning of ‘interest’, so does this mean that advisors must look for any interests of the client or look only at the things that are in the client’s best interest (Duska, 2011, p. 18)? The Corporations Amendment (Future of Financial Advice Measure) Bill 2011 provided a framework for financial advisors to follow to meet the best interest requirement (found in ss..96B(1), 961B2). The Bill provides six steps advisors must take and a ‘catch all’ provision which asked advisors if they took any other steps during the time in which they provided their client advice, and, if so, would the advice be considered in the best interest of their client (Rajaretnam, 2015, p. 6). It seems impossible that advisors could understand how to comply with such an open-ended statement as ‘any other steps’. There is a fear that advisors would limit the amount of advice provided to clients, given the uncertainty regarding their best interest requirement. Thus the fiduciary duty requirement was changed to reflect the best interest requirement, through the steps outlined above. These steps still do not solve the problem as they result in a ‘safe harbour’ for advisors by creating a box-ticking exercise to ensure they are meeting the best interest requirement. There will be a similar concern in Canada, if the regulators implement the fiduciary duty. I am aware of the process of getting to know a client and feel that a list of steps could limit my ability to understand the uniqueness of each client.

The FoFA reform also placed a restriction on the amount of percentage-based fees charged, and banned the receipt of commissions for new advice after July 2013 (BlackRock Viewpoint, 2014, p. 10). The restriction on fees charged is similar to the regulations in the Netherlands; it is something the Canadian regulators could examine. The FoFA reforms require advisors to disclose their fees to clients who must opt-in to a fee arrangement with their advisor after July 1, 2013. Clients must renew this fee arrangement every two years (Rajaretnam, 2015). If Canadian regulators abandon trailing commission and require clients to renew fee arrangements with clients every few years, it would require more time from advisors, increasing compliance costs and reducing the time for revenue-generating activities, which could widen the advice gap further.

Rice Warner Actuaries (2013) conducted an analysis of the impact of the FoFA changes for the Australian financial advice industry and formed the following conclusions. The reforms should lead to the price of financial advice being lower as more individuals move from full-service advice to more scaled advice (advice offered at different periods of a client's lifetime). XYZ does not appear to be moving in this direction as they have instead developed more wealth management products and services. Rice Warner Actuaries also predicts that the industry will grow, and that efficiency and productivity of advisors will improve due to technological improvements and consolidation in the industry. Technology is already starting to impact the Canadian marketplace through the introduction of automated portfolio management and advice offered through new technologies. They also note that the superannuation system in Australia is expected to increase the growth rate of scaled advice, while the regulations have made scaled advice less onerous to deliver. Presently, XYZ does not offer a scaled advice programme; they are looking for different ways to deliver products and services to various market segments, which could include scaled advice.

Rice Warner Actuaries see an increase in the number of advisors working in the industry after FoFA reforms, with the number of advisors declining after the year 2023. This advisor number forecast is certainly different from the UK, where the number of advisors dipped significantly. The mandatory superannuation system and the reforms to scaled advice may play a role in the increase of advisors after FoFA reforms. Given that Canada does not have a compulsory superannuation system, makes it difficult to ascertain how the number of advisors could increase in Canada after the proposed financial regulations.

3.1.3 The United States

After the global financial crisis in 2008, the USA, like other countries, tried to restore consumer faith and confidence in the financial markets. It was clear that the USA

regulatory framework was not working given that broker-dealers and investment advisors are regulated in different ways, which caused confusion amongst investors as to whether they were dealing with a broker-dealer or an investment advisor (Varnavides, 2011, p. 217).

Broker-dealers are compensated through commissions (transaction-based compensation) and regulated under The Securities Exchange Act of 1934, which implements rules concerning their conduct. Broker-dealers must also comply with the suitability rule created by the Financial Industry Regulatory Authority (FINRA). Investment advisors are paid through fees for the advice they provide and must adhere to the best interest standard with clients, outlined in the Advisor Act of 1940 (Security and Exchange Commission (SEC), 2011). In 1963, the Supreme Court ruled the best interest standard was fiduciary in nature **(**Lazaro, 2013, p. 394). The Dodd-Frank Wall Street Reform and Consumer Protection Act pressed the SEC to harmonise regulations by creating a uniform standard of care for broker-dealers and investment advisors (Dodd-Frank Act, 2010, p. 449). The SEC (2011) conducted a study on the different regulations pertaining to broker-dealers and investments advisors and provided recommendations to harmonise the regulations concerning supervisory requirements, licensing and registration of firms, licensing and continuing education, and advertising of both groups, with the aim to create a uniform standard of care (fiduciary standard). Canada is different since securities registered organisations are regulated by IIROC, whereas those only offering mutual funds are regulated through the MFDA, and both are subject to the new Canadian financial regulations.

Harmonising the regulations in the USA will be difficult, as it requires the SEC to regulate and enforce the new standard of conduct. Currently, the SEC is unable to investigate the 5,500 broker-dealers (considered investment advisors) and 11,000 investment advisors currently under its authority, let alone the 644,000 registered securities representatives considered broker-dealers registered with FINRA (Varnavides, 2011, pp. 206, 222). The situation becomes more complex when you consider that broker-dealer compensation is commission-based (transactional-based compensation)

which also includes asset-based compensation in the form of 12b-1 fees (trailing fees in Canada) paid to the advisor's firm by the product provider (Weinstein, 2015, p. 6). This complicates the regulators' ability to cast a broker-dealer as a fiduciary, as their compensation results in a perceived conflict of interest. The Dodd-Frank Act (2010, p. 453) states that the receipt of commissions by a broker-dealer will not be considered by itself a violation of the uniform standard act. This has been one of the issues stalling the abandonment of commissions in the USA. There is concern that eventually the uniform standard act will lead to the abandonment of commissions like in Australia. Before a fiduciary standard becomes a reality in Canada, the regulators must first address the perceived conflict of interest with trailing commissions. It is possible that trailing commissions will be made redundant by Canadian regulators in a few years.

Oliver Wyman (2010) conducted a study, on 17 investment firms in the USA, concerning the impact of changes made to the standard of care for broker-dealers and investment advisors and reported that 95% (38.3 million) of households involved in the study (representing 25% of the retail assets or 33% households in the US) had a commission-based account, while only 5% had a fee-based account. They note that the impact of a standard of care could result in a change to the compensation models, which could lessen choice for retail investors, while it could also reduce the access to products primarily distributed through broker-dealers. An interesting result from the Oliver Wyman study was that fee-based services are 23 to 37 basis points more expensive than that of a broker, which could lead to affordability issues and reduced access to advisory services if a fee-based model replaces the commission-based model. Moving to a fee-based model in Canada could also lead to increased advisory fees, only widening the advice gap further. To date the USA has decided to allow both the commission-based and fee-based compensation models to co-exist (Weinstein, 2015, p. 64); this is also the case in Canada but could change.

3.1.4 Canada

The Canadian regulators want to restore investor confidence and trust in the CFSI, by taking steps aimed at improving transparency between advisors and their clients. The Canadian Securities Administrator (CSA) (2012, p. 11252) produced a discussion paper regarding the mutual fund fee structure in Canada, requesting a dialogue with financial advisors, mutual fund companies, regulators, and the government. The CSA noted that trailing commissions as a source of advisor compensation increased from 27% to 64% from 1996 to 2011. Part of the regulators concern is whether or not clients are aware of the trailing commissions they are paying to their advisors. In a survey conducted in the USA on 500 customers and 366 advisors, only 61% of clients said their advisor mentioned fees, whereas 95% of the advisors surveyed reported that they discussed fees with their clients (Knowledge@Wharton, 2007). A similar study in Canada, found that 51% of investors age 35 to 54, and 54% of those 55 and older remembered discussing fees with their advisor the last time they invested in a mutual fund, whereas only 47% of younger investors those age 18 to 34 remembered having a fee discussion (Investment Funds Institute of Canada (IFIC), 2012, p. 21). These results have the Canadian regulators looking for more transparent ways for advisors to communicate fees. These results should make advisors aware of the importance of articulating, demonstrating, and documenting the fees they charge their clients.

The CSA (2012; 2013) announced a new Client Relationship Model (CRM) with the aim of improving transparency between advisors and clients. The Canadian regulators decided to introduce CRM in two phases, CRM I and CRM II. In 2012, CRM I was implemented, which required that advisors provide clients with detailed information, in the form of a fund fact document, providing transparency to the client concerning investment performance, the costs associated with the investment, and the remuneration paid to the advisor’s firm. CRM II, is based on the regulations outlined in National Instrument 31-103 (Ontario Securities Commission (OSC), 2013b), and was implemented between 2014 and 2016, with an aim to improve transparency further

between the advisor and client. July 2014 was the start of CRM II, which required that advisors discuss their fees with clients before entering into the purchase or sale of an investment. From July 2016, investment dealers are required to provide an annual performance summary to clients that communicate the actual charges paid by the client in dollar terms. The expectation is that these changes will provide investors with a better understanding of their fees and performance. It could also cause some investors to questions the fees charged, leading to the downward pressure on advisors' compensation. If this occurs, advisors may decide to deal with only wealthier clients, which would result in widening of the advice gap further.

The belief is that CRM will not stop at CRM II, as regulators in Canada are proposing that the financial service industry abolishes trailing commissions for the fee-based model (Langton, 2014b). I feel this could lead to less choice for investors, and could widen the advice gap further. Regulators believe the transparency offered by the fee-based model could potentially lead to lower costs. The fee-based model would also allow clients to decide the services they want for the fees charged. In an attempt to understand this issue better, the CSA commissioned The Brondesbury Group (TBG), in 2014, to conduct a literature review to assess whether the type of compensation (commission-based, fee-based) impacts the nature of advice and investment outcomes. The research justified the development of new compensation models, however, not enough evidence was provided to determine whether a fee-based compensation model would be better for investors over the long-term (Weinstein, 2015). In Canada, some advisors are moving away from the commission-based model in favour of the fee-based model, and in doing so can offer investors very low-cost products, such as Exchange-Traded Funds (ETF). However, the compensation that the advisor receives for advice could actually be higher. For example, if the advisor purchased an ETF with a cost of 0.50% and charged a fee-for-service of 1.50% (total cost 2%), the advisor would receive 50% more compensation than if they had purchased a mutual fund with a 2.00% MER, with an embedded trailing commission of 1.00% (dealer remuneration). Currently, no evidence exists whether or not there is a direct benefit to the client by using a fee-based model. I see the potential of some advisors increasing their fees, just because they

disclosed them. Weinstein (2015, p. 10) notes that the logic of if not ‘A’ (commission-based compensation) then it should be ‘B’ (fee-based compensation) is not sufficient to make a balanced judgement since more empirical evidence is required. I feel that a push by regulators to a fee-based model could have unintended consequences, such as higher advisory fees, leading to a widening of the advice gap.

Transparency of fees will require more accountability from advisors for the services provided, resulting in them working harder and more efficiently (Advisor.ca, 2013). Many advisors are beginning to create a ‘unique value proposition’ for their practices (Klimek, 2010), to articulate the value they offered for the fees charged. XYZ advisors are already preparing their services and are working longer hours as a result of the new regulations. There is a concern in Canada that fee transparency could lead to a widening of the advice gap similar to Australia, the UK, and the Netherlands**.** Carrick (2015) notes research conducted by PriceMetrix on fee-based data from Canada and the United States in 2014, reporting that for investors with assets less than $250,000 the average fee was 1.43%, while those with over $2-million the average fee is 0.79%. This is interesting, since the current embedded trailing commission model, in Canada, both the large and small investment accounts pay the same amount. I believe this is an unintended consequence of the new regulations.

3.2 Complex Adaptive Systems (CAS)

Understanding complexity theory (CT) and CAS can assist with making sense of the new regulatory requirements being introduced by the Canadian financial regulators, which have impacted XYZ through a widening advice gap. The theoretical framework of CAS could be used by XYZ to address the new regulations and to assist with change management. It seems futile to create a strategy based on what is known about these regulations without addressing the overarching complexity facing XYZ.

The traditional position concerning organisations, referred to as the dominant discourse, suggests that the role of management is to bring an organisation into equilibrium (Burrell & Morgan, 1979). The dominant discourse proposes that management can direct the future of an organisation through strategy and change, suggesting that the management can predict the future of an organisation. The complexity of addressing and adapting to the new regulations by XYZ make it difficult for the executive team to develop strategies to overcome the widening advice gap, especially considering the many departments, branches, and individuals involved. The dominant discourse is central to the scientific method (reductionist hypothesis), as the scientist observes nature, formulates a hypothesis, and tests the hypothesis against data, leading to deterministic, linear 'if-then' casual links (Stacey, 2011, p. 49). The modern theory of science of the twentieth century was influenced by the principles of Newton's mechanistic explanation of the universe, Laplace's classical mechanics, and Descarte's involvement in the scientific revolution (Capra & van Steenberger, 1985). The Newtonian mindset is insufficient if we accept that organisations are systems which are complex, nonlinear, and open. Sullivan & Lazenby (2005, p. 120) discuss how strategic planning uses the past to help forecast the future; however, the world is increasing in complexity and uncertainty requiring a new approach to solving organisational issues. The increased regulations and the complexity facing XYZ must be addressed by the entire organisation and not just by the senior executive team.

The Santa Fe Institute was founded in 1984 and is home to Nobel laureates Murray Gell-Mann, Philip Anderson (physics), and Kenneth Arrow (Economics), who believe they have the mathematical tools to create an alternative to the linear (reductionism) approach that has dominated science (Waldrop, 1992, pp. 12-13). The Santa Fe Institute (2015) is working to understand how a living system develops, diversifies, organises, and regulates itself. For example, why do some businesses fail while others flourish? An important factor to consider is how organisations are open systems, and the parts of the systems are the individuals working in them. Barton et al. (2009, p. 484) notes the difference between a closed and open system, explaining that in laboratory science (closed system), conditions such as room temperature can be "identified, measured, and

controlled," whereas, in the social sciences (open system) not all conditions can be known, or controlled. Understanding how open systems are connected to the environments of which they are a part (Stacey, 2011, p. 127), could assist the management of XYZ with addressing the widening advice gap.

The theoretical framework of CAS could assist the management of XYZ with interacting with regulators, competitors, etc. Organisations and individuals are open systems that make sense of the world through the actions and decisions of other open systems. Stacey (2011, p. 265) explored this when examining the entry of IBM into the micro-computer industry. IBM's entry resulted from reduced competition and the increased interaction (competition) between surviving companies. Therefore, IBM's future unfolded through the emergence of an opportunity stemming from the interaction of the surviving companies, not through strategy developed by the executive management team. Liang (2013, p. 7) mentions how emergence can lead to unpredictable and unexpected outcomes, which are different from the old structure, properties, organisation, and environmental forces. For XYZ, new approaches to address the widening advice gap could be achieved by unfolding the future together as a CAS.

Mitchell (2009, p. 12) provides three elements common amongst all CAS:

1) Complex adaptive behaviour – complex systems consist of large networks of individual components, each following simple rules, with no leader in control. Lack of control makes it hard to predict outcomes.
2) Signalling and information processing – complex systems use and produce information and signals using their internal and external environments.
3) Adaptation - these systems change their behaviour to improve their survival rate through learning and the evolutionary process.

For XYZ, there are large networks of individuals following rules. These individuals have their internal worldview based on the analysis of their beliefs, preferences, talents, and values. Most daily activities faced by an individual are based on their internalised

unconscious actions, while the external environment involves the contact with others and the world around (Luczkiw & Kompf, 2012). The interaction of these individuals (heterogeneous agents) leads to unpredictability and nonlinearity. The nonlinearity in a CAS is derived from individuals (agents) interacting with and adapting to each other, which form systems or patterns (Stacey, 2011, p. 244) through each individual's behaviour which is dictated by *schema* (Anderson, 1999, p. 219). These individual interactions in an open system can lead to the nonlinear dynamic of chaos, whereby the output of the system fluctuates so unpredictably that it appears random (Johnson, 2009, p. 40). The nonlinearity of a CAS makes the application of modern science difficult, for the universe is a complex system of relationships which take place between various structures (political, social, economic) that interact, making complexity a more meaningful way to understand the interrelationship between physical, natural, and social systems (Luczkiw & Kompf (2012, p. 101).

Applying the theoretical framework of CAS could assist the executive team of XYZ, by providing an approach for leading the organisation through change management. It also supports the view, that, as individuals in XYZ interact face-to-face or through the use of technology, new systems or patterns relating to the regulatory changes may occur. To address nonlinearity and complexity a more holistic approach is required, since organisations are semi-autonomous, given the interactions that occur between many levels of employees, cognition, and action (Dooley, 1997). Understanding how the parts of a system interact in forming a whole is what CAS offer to the understanding of systems. For example, the heterogeneity of individuals (parts) working in an organisation can lead to new and unknown forms for the organisation. For the management of XYZ, it means that strategies are unpredictably emerging in a co-evolutionary process stemming from competition and conflict driving the individual agents (Stacey, 2011, p. 252).

XYZ cannot know in advance the impact of the new regulations, but they can create an environment in which members of the organisation can share information, facilitating the organisation with developing an understanding of the regulations in collaboration.

Complexity theory terms collaboration ‘self-organisation’, and Wheatley & Kellner-Rogers (1996, pp. 20-23) provide three conditions required for self-organisation to occur:

1) Identity – creating a shared sense of identity allows the sense-making capacity of the organisation to form or self-organise around a vision, mission, and values
2) Information – allowing information to flow in a complex system which may appear chaotic leading to the edge of chaos, the main ingredient of self-organisation
3) Relationships – individuals need access to each other

Reaching the edge of chaos in a CAS is important, as it can assist with the process of inquiry leading to new ideas (Heron, 1988, p. 52). The use of the scientific (positivist) approach to understanding innovation would not be appropriate, since innovations can be considered complex, uncertain, and disordered, and can result in many different kinds of change (Kline & Rosenberg, 1986). With a collaborative approach, XYZ could probe, sense-make, and respond (Beurden et al. 2013, p. 77) to the complexity of regulations through the emergent property of self-organisation. This is important for XYZ to recognise, as each individual in the organisation will try to predict the future by using their individual experiences as a guide. When individuals self-organise it results in non-linearity as the individuals interact and create a future that is unpredictable. It is this unpredictability and chaos that will enable the organisation to develop responses to the new regulations.

3.3 Entrepreneurship and Intrapreneurship

The topic of entrepreneurship emerged from the interviews with the self-employed financial advisors, clients, and the executive team; all groups considered XYZ advisors entrepreneurs. Entrepreneurship can also assist organisations, considered CAS, with an

understanding of how entrepreneurs can work together (self-organisation), leading to the edge of chaos and the emergent qualities of innovation and creativity. Sharma & Chrisman (1999, p. 18) mention that innovation is a ‘sufficient’ requirement not a ‘necessary’ requirement of entrepreneurship, and thus, treat innovation as an entrepreneurial act. Perhaps the entrepreneurial spirit within XYZ could be used to create innovative ways to adapt to the widening advice-gap, by developing efficient and profitable solutions to continue to service and advise ISIA. Thompson & Heinonen (2014, p. 264) posit that for organisations to compete effectively in the global marketplace, they will be required to take innovation and entrepreneurship seriously, to address the uncertainty and change pressures the global marketplace presents. It is through entrepreneurship that an individual or a group of individuals in conjunction with the existing organisation initiate renewal, or innovation, or create a new organisation altogether (Sharma & Chrisman, 1999, p. 18). Zahra (2015) mentions that creating an opportunity for individuals to have intellectual meetings (entrepreneurial hub) is important so that they can exchange ideas about how their organisation functions, organises, and competes. Zahra notes how these meetings can appear as organised chaos, but over time corporate entrepreneurship unfolds. These intellectual meetings are similar to the self-organising behaviour of a CAS, as it processes information concerning the internal and external environment, eventually leading to adaptation.

Luczkiw & Kompf (2012, p. 17) mention that entrepreneurs demonstrate the principles of a CAS as they can adapt to their environments by using their abilities to identify opportunities and create novel solutions. Gene Luczkiw, registered the trademark ‘Enterplexity ®’, which is the combination of entrepreneurship and complexity. Perhaps the entrepreneurial spirit located in XYZ could self-organise and allow innovation and creation to take place to address the advice gap. Cunningham & Lischeron (1991, p. 45) note that some researchers and academics think that self-employed individuals are not entrepreneurs, but instead small business owners. I believe XYZ advisors are risk-takers and have an enormous amount of entrepreneurial spirit that could be harnessed to direct the organisation with creating solutions to address the advice-gap. One of XYZ’s advisors recently shared with the members of XYZ the processes they use, which they

developed over 30 years. These processes were designed by an entrepreneur, and later refined and polished by senior management for distribution to the entire organisation, through workshops and using XYZ's technology platform. XYZ should be aware that entrepreneurship is a reiterative process that involves "personal evaluation, planning, acting, and reassessing" (Cunningham & Lischeron, 1991, p. 55), and as such should not be rushed.

Cunningham & Lischeron (1991) propose six schools of thoughts for understanding the entrepreneurial process. The one examined for this research is the sixth school of thought, the intrapreneurship school of entrepreneurship. Intrapreneurship evolved as a response to the lack of competition and innovation facing organisations. The purpose of intrapreneurship is using the entrepreneurial skills, in a complex organisation, to innovate, create, market, and expand services. This approach suggests that innovation can be achieved in an organisation by encouraging individuals to work as entrepreneurs in semiautonomous groups. XYZ could use this approach when offering workshops and conferences for advisors. Thompson et al. (2014) mention that intrapreneurs have two perceptions of the world, first, they see the world as full of opportunities and second, they see the world as a place where they can make things happen. I entered the business to be self-employed and to be an entrepreneur, which has presented me with opportunities for both personal and work-related growth. Corporate entrepreneurship is becoming more important for US firms as they face competitive, technological, political, and social change (Guth & Ginsberg, 1990), all faced by XYZ. Antoncic & Antoncic (2011) conducted an empirical analysis of data collected through a questionnaire sent to 149 Slovenian firms and determined that a relationship exists between employee satisfaction, intrapreneurship, and the growth of a firm. The members of XYZ would benefit from learning how they can harness the entrepreneurial spirit located within the organisation, so the benefits of innovation, creativity, employee satisfaction, and corporate growth could be achieved. It is through intrapreneurship that XYZ could develop approaches to reduce the advice gap.

3.4 Technology

Technology was an emergent theme from the regulatory literature. It was important to provide advisors with an understanding of how technology is disrupting the CFSI. The new regulatory changes concerning the transparency of fees and performance, is requiring advisors to clearly articulate, demonstrate, and document the fees charged and the services they provide. The regulatory changes are also requiring advisors to become more efficient and economical with the delivery of advice. Many organisations in the CFSI have developed new technologies for advisors and clients; better client databases to the delivery of financial products and advice without contact to a financial advisor. It is paramount that both XYZ and the individual advisors remain cognisant of the technological changes taking place in the industry and how they can prepare to compete with or embrace these new technologies.

3.4.1 Disruptive Technologies

Sullivan & Lazenby (2005, p. 57) present how technology has changed, what consumers have, want, expect, and how they intend to get it. They note that there is a perception amongst salespeople that they must be either ‘high-touch’, whereby they interact with people (consumers) with no use of technology, or ‘high-tech’ in which case they use technology and have no contact with people. Both the executive team and advisors are struggling to understand how to provide both high-tech and high-touch, given the regulatory requirements regarding new technology and how it could be used. New disruptive technologies are high-tech and very low-touch; some firms are looking at embracing new technologies, creating a high-touch and high-tech offering. One new low-touch technology is called Robo-advisors, defined as automated elements of basic investment advising, such as automated portfolio construction and management, account aggregation, risk assessment, tax optimisation, rebalancing, and reporting (Wessel, 2015; O’Brien, 2015). Fox Financial Planning Network (FFPN) (2014) reported that

although Robo-advisors differ, they all have one commonality, a focus on low-cost investments, with many charging only one-tenth of the cost of a traditional advisor. Aite Group, a research and advisory firm that focuses on the financial service industry, reported that assets held with digitally registered investment advisors between 2013 and 2014 rose 160% to reach $5.1 billion in the US (O'Brien, 2015). It is anticipated that growth will continue as Robo-advising technologies have been able to raise an enormous amount of venture capital. Three Robo-advising firms in the US (Betterment, LearnVest, Wealthfront) raised $95 million, in two weeks during April 2014 (FFPN, 2014). The market growth and financial funding of Robo-advisors is forcing the traditional financial advisors to showcase the value they offer clients. Although not a serious issue in Canada yet, I have answered my clients' questions concerning the pros and cons of Robo-advice. The advisors of XYZ should develop an understanding of this new technology so they can respond to client questions professionally.

O'Hara (2015) reports how one wealth management firm in Canada is looking to incorporate Robo-advising into their firm's product offering, as it could assist financial advisors who are trying to segment their books. In fact, creating a second tier of service using Robo-advice would provide the traditional advisor with a low cost way to service less profitable segments of the market, such as the children and grandchildren of their wealthier clients (FFPN 2014), while providing another tier of service to clients with complex financial planning concerns. I agree that offering Robo-advisory services to my clients with less complex financial planning issues would be a competitive way to provide a low-cost investment option. It would also free time to address other needs these ISIA may have. Sullivan & Lazenby (2005) note that if financial advisors are to compete, they must be able to assist their clients with solving complex and hyper-complex problems by using both human contact and technology in collaboration with clients. Robo-advise would be appropriate for those who have simple problems that can be solved by an algorithm (Robo-advisor); automated portfolio construction would be a good fit for young investors starting out, assisting them with developing good saving and investment habits. Complex retirement planning cannot be easily solved by an algorithm, especially when it comes to complex tax-planning issues and decision on

where a client should live in retirement (O'Brien, 2015). Advisors who embrace Robo-advising will benefit from operational efficiencies, allowing them to spend more time managing client relationships, enhancing client loyalty, and gathering more investable assets. Robo-advice could also reduce the advice gap in XYZ, by providing a solution to connect with ISIA.

3.4.2 Unfolding Future Regulations using Technology

In 2012, XYZ implemented a new Client Relationship Management (CRM*) programme. The asterisk was used to differentiate it from the Client Relationship Model (CRM). These acronyms are the same, but differ in that CRM refers to the new financial regulations, whereas CRM* relates to a technology programme. The intention of CRM* is to improve operational efficiencies (client database mining) and the client experience (social media). Coltman (2007, p. 103) determined that CRM* technologies can improve performance in banking, by using it both tactically and strategically. The tactical approaches focus on the automation of the sales force and client communications, whereas the strategic approaches focus on a combination of human input, technical, and business-related activities, leading to higher order CRM* capabilities, providing an economic advantage to an organisation. XYZ has been trying to use their CRM* programme both tactically and strategically.

Using a CRM* programme could improve the operational efficiency of advisors as the CRM* programme would be utilised for most client initiatives, providing a log of all client contacts and services. The CRM* programme could also be used for XYZ advisors to collaborate with one another. Collaborating could also assist with making sense of the new regulations and to share best practices. This was done by one senior advisor of XYZ, when their processes and procedures were shared with the entire organisation. The benefit to this advisor has been feedback from other advisors on their processes and procedures, allowing the senior advisor to revise and update their systems. It has created

a dynamic capability in XYZ through prototyping (Eisenhardt & Martin, 2000, p. 1112). The ability to work with various templates and to discuss with other advisors provides financial advisors with the advantage of 'learning by doing' as opposed to learning before doing (Pisano, 1994, p. 86). The implementation of the organisation's CRM* programme and the senior advisor sharing their processes and procedures has planted a seed, creating a learning mechanism to guide the evolution of dynamic capabilities in the organisation (Eisenhardt & Martin, 2000, p. 1114). Sanders (2007, p. 1332) empirically tested the relationship between an organisation's use of e-business technologies and the impact on organisational collaboration and performance and confirmed that intra-firm collaboration through the use of e-business technologies directly influences organisational performance. Therefore, technology could be used to bring members of XYZ together through e-collaboration (Kock & Nosek, 2005, p. 1.), improving both self-organisation and the co-evolutionary dynamics of the organisation. One benefit of e-collaboration is that it provides a way for collaboration to occur between members of an organisation separated by distances (Bidgoli, 2012, p. 147). The XYZ advisors are located across Canada, making the CRM* programme an innovative way for collaboration to occur. However, just like an agent in an organisation, information technology is interacting with its environment through self-organisation, emergence, and non-linearity (McCarthy, 2003, p. 730).

3.5 Characteristics of the Small Investment Account Holder

The small investment account size for the research has been determined to be an investment account with less than $150,000. Using this value is appropriate as the fee-based model for XYZ is currently structured with a minimum fee of $1,500 per account annually. If this fee were based on 1% of assets, it would require an account size of $150,000. Research from the UK provided evidence that advisors, after the regulatory changes, plan to generate approximately £1,472 per year per client (Clare et al. 2013, p. 8), with a 1% fee it would require clients to have approximately £150,000 of investable

assets. At the time of writing the conversion rate of the Pound Sterling to Canadian dollars was 1.89 (Fx-rate, 2016), suggesting that in Canada the figure should be $283,500.

Investor Economics (2015) provided raw data from 2014 (Appendix A) which they used to segment the financial wealth of households in Canada, by asset thresholds. They defined the mass market as families with investable assets between $0 and $100,000. This segment represented 78.9% (12,312,000) of Canadian households. The mid-market was defined as families with between $100,000 and $500,000 of investable assets, which represented 12.2%. Using these two segments would allow the research to focus on approximately 80% of Canadian households. Advocis (2014, pp. 1-5) questions whether the approximately 80,000 financial advisors in Canada will be required to support a market in which 12 million Canadians households are part of the mass market, as reports from other countries (Australia and UK), faced with similar regulations, experienced advisors leaving the mass-market investor segment, thereby requiring this segment to invest on their own or pay for modular advice.

Understanding the segmentation process can assist with company resources being more efficiently used to meet the needs of the market, which can lead to improving customer satisfaction (Harrison, 2000). Perhaps an opportunity exists for XYZ to use resources to provide services to the mass and mid-market segments, by developing modular advice using technology and low-cost investment alternatives, with the aim to grow these accounts so they can enter the mid-market and affluent segments over time. Rieker (2014) reports how Scott Hanson, a financial advisor, in Sacramento, California, expanded his business by reducing his minimum account size from $250,000 to $50,000. Lowering the minimum account size required additional people, systems, and back-office resources, to service the larger volume of clients. I have been able to improve my own practice efficiency through streamlining my processes and utilising technology to interface with my clients, which has allowed me to continue to service ISIA. Some XYZ advisors are choosing to hire junior advisors to ISIA, while also using

standardised financial planning and advice tools which make this segment easier to service than the custom-tailoring solutions required for wealthy clients (Rieker, 2014).

3.6 Summary

Other countries have enacted regulations concerning the transparency of fees to improve investor confidence concerning the delivery of financial advice. The Netherlands saw the number of financial firms offering advice decline and the UK witnessed a decline in the number of advisors. The Canadian concern is that the new regulations will widen the advice gap, potentially caused by a reduction in the supply of advisors and/or an increase in the cost of advice. The theoretical framework of CAS was proposed as a new paradigm for XYZ to sense-make the regulations and for change management. Understanding CAS will allow the organisation to self-organise and address the regulations. Entrepreneurship was included as the advisors, clients, and executive team of XYZ agree that advisors are entrepreneurs. Through intrapreneurship, XYZ could self-organise and use the entrepreneurial skills in the organisation to innovate and create solutions to continue to service ISIA. The technology which appeared from the review of regulatory literature was included to provide XYZ with an understanding of how technology is disrupting and being used in the CFSI. One new technology is Robo-advice, which can improve practice efficiency, while XYZ's CRM* programme could facilitate self-organising in the organisation, resulting in innovative and creative solutions to service ISIA. The small investment account size determined for the research was < $150,000, based on the minimum advisory fee of $1,500 being charged on XYZ's fee-based accounts, with a 1% fee. Data from Investors Economics (2015) was used to examine the investable assets of Canadian households; 80% which have less than $150,000 in investable assets, which are those impacted by the advice gap. The literature review assisted with developing the interview questions and also provides support to the options presented in the findings, which aim to address the advice gap.

Chapter 4 provides the methodology used for this research by examining my philosophical and ontological positions, and the rationale for using the action-research approach and a single case study. Guided by the research objectives and a single case study resulted in qualitative (interviews) and quantitative (survey questionnaire) data. The interview selection process and design is shown, with the analysis used for this data. A discussion for the development of the survey questionnaire, how it was delivered to the advisors of XYZ, and the technique used to analyse the data gathered. Finally, ethical issues that could arise in the research and my role as insider action researcher are discussed with the limitations of the study. This chapter also presents the process used to address the research objectives, and how the literature reviewed from Chapter 3 informed develop of the interview questions.

Chapter 4

4 Methodology

This chapter presents my epistemological position and use of the action-research modality. A single case study was chosen to examine how the new regulations are impacting XYZ's ability to service ISIA. Guided by the research objectives and case study method, both qualitative and quantitative data were gathered. The interview design and development of the survey questionnaire is provided. The coding techniques used to analyse the interview data and the statistical analyses conducted on the survey questionnaire data are discussed. The ethical issues that could arise during the research are presented and how they were overcome. My dual role as advisor and researcher of XYZ provided me with access to the organisation, but presented some risks to the research which are outlined. Limitations of the study are provided. In the end, the research methodology assisted with the aim of the research, to assist advisors with continuing to service ISIA

Section 4.1 introduction, 4.2 philosophical research position, 4.3 methodological approach, 4.4 data collection, 4.5 data analysis, 4.6 ethical issues, 4.7 limitations of the study, 4.8 provides a summary.

4.1 Philosophical Research Position

After critically reflecting on Burrell & Morgan's (1979, pp. 21–34) four mutually exclusive paradigms, I realised that I would have difficulty distancing myself from my research using the scientific method (positivist/objectivist) approach. This stems from my belief that the new financial regulations and the advice gap may have different meanings to those involved. It was not possible to for the research phenomenon to be

researched in isolation using the scientific method, as the intent of this research was not conduct hypothesis testing, instead the research interest is to develop an understanding of how the new regulations are impacting the XYZ and whether the organisation has or can adapt to these regulations in a way to continue to service ISIA. I was also a researcher and participant in this study, making it difficult to distance myself from the research as required by the scientific method. I reflected on the various philosophical research positions and determined that I would be researching as a subjectivist (interpretivist). I also view the *nature of society* from the position of the *sociology of radical change* (Burrell & Morgan, 1979, p. 17), as I do not see reality possessing a concrete form. The work of Summers (1986) on the efficient market hypothesis supports this view, as asset prices are rationally related to economic realities (concrete reality); however, the market can be inefficient at times due to individual psychological decisions (individual reality). Socially constructing the nature of reality in this research will assist with constructing options for financial advisors to assist them with continuing to service ISIA.

Researching from the position of a subjectivist and the sociology of radical change have me researching from the radical humanist paradigm, which will assist advisors with a change in their mode of consciousness and cognition concerning the impacts of the new financial regulations and their ability to service ISIA. As a result of my philosophical position, I am using the inductive social-constructionist approach of action research (Coghlan & Brannick, 2010, p. 41). This approach will allow me to explore my ontological view, as I am trying to explore the issues facing XYZ from the perspective of others, providing different lenses through which to examine my research questions.

My research was not only influenced by my ontological and epistemological positions but also through my need to create research that was both rigorous and relevant. Easterby-Smith et al. (2012, p. 17–18) note how a researcher’s ontology is framed by their philosophical assumptions concerning the nature of reality. These range from realism (one single truth), internal realism (where truth exists but is vague), relativism (many truths exist), and finally nominalism (where no truth can be found). They

mention that the researcher's epistemological position is concerned with their assumptions about how to inquire about the nature of the world, which can be either from a purely scientific method, positivism, or through social constructionism. As a result, I adhere to the relativist ontology and a social-constructionist epistemology.

The design of this research relies on both qualitative (subjectivist) and quantitative (objectivist) research. Using a social-constructionist approach assumes that many different realities exist and it is through the gathering of multiple perspectives that requires a mixture of qualitative and quantitative methods in order to provide the point-of-view and experiences of a diverse group on individuals for the research (Easterby-Smith et al., 2012, p. 19–25). This approach assisted with the aim of the research, to assist advisors with continuing to service ISIA. Therefore, qualitative data was derived from the interviews with some of the advisors, clients, and the senior executive team of XYZ. Additional interviews were also conducted with other stakeholders, providing valuable qualitative insights into the research phenomenon and context, allowing me to determine salient themes used to construct an advisor survey. The interviews also provided the opportunity for reflection in-action and reflection on-action (Schön, 1983). The results from these interviews are provided in Chapter 5. My action-research process helped me to step back and question my own experiences as a financial advisor and as a researcher, assisting me with developing insights into how I know, so that I can plan future action resulting from my own lived experiences (Coghlan & Brannick, 2010, p. 24). After the quantitative data was produced and analysed, the senior executive team was presented with the findings and interviewed again, providing another opportunity for reflection-in-action (Chapter 9).

4.2 Methodological Approach

4.2.1 The Case Study

After reviewing the relevant literature concerning the CFSI and the regulatory changes in other countries, it was determined that the use of a case study would be used to generate a contextual understanding of the widening of the advice gap stemming from the regulations and how the organisation can reduce the advice gap by continuing to service ISIA. Yin (2014) posits that the case study research methodology involves the study of a case regarding a real-life contemporary context or setting, particularly when the boundaries between phenomenon and context are not clearly evident. Studying XYZ has provided a real-life setting to explore how the new financial regulations have widened the advice gap in the XYZ, assisting with the development of options for advisors to use to continue to service ISIA. Creswell (2013, p. 97) suggests that the case study approach is a qualitative approach that explores a real-life situation in a "contemporary bounded system (a case) or multiple bounded systems (cases)" over a period of time, by using various in-depth data collection sources of information, such as, observations, interviews, documents, reports, and audiovisual material. Some suggest that the case study is not a methodology but is instead a method to decide what will be studied (Stake, 1995) whereas, others feel that the case study approach can test and generate theory within the positivist paradigm (Eisenhardt, 1989; Lee, 1989). My decision to use a case study was further strengthened by my belief that empirical observations are not enough for the science of understanding organisations since it is the members of the organisation that plan the future (Susman & Evered, 1978, p. 584). With the experimental method, the phenomenon is separated from its context, which is controlled, thereby resulting in an examination of just the phenomenon through a few variables (Yin, 2014, p. 16). As a result, understanding XYZ in collaboration with other members of the organisation and stakeholders will assist with providing practical

knowledge that advisors and XYZ can use to adapt to the regulatory changes, so that they can continue to service ISIA.

4.2.2 Action Research

The action-research process is connected to this research as this modality maintains that no learning can take place without action (Revans, 1998, p. 85). Action research also requires a democratic process and the participation of others involved in the research so that a practical knowledge can be achieved by pursing a worthwhile cause, which is grounded in a participatory worldview (Reason & Bradbury, 2013). It is through participation that people learn more effectively when working on real problems that take place in their work environment.

Throughout the research process, I was actively engaged in the financial service industry as both a financial advisor and as a researcher. I believe that action research provides a different philosophy for understanding the science of business, as it can assist one with addressing "how we know, what we know and what it is that we value as knowledge" (Reason & Bradbury, 2013, p. 18). As a result, the action-research modality rejects the privileged position of 'knowing that' and instead promotes 'knowing how' to develop credible, practical knowledge and action (Greenwood & Levin, 2007, p. 53).

The interviews with stakeholders provided me with an opportunity to question my assumptions as a financial advisor, in addition to providing different lenses concerning the widening advice gap. The early work of Lewin mentions how the science of action research is a collaborative cyclical process, used to construct a way to change a situation or a problem together by planning, gathering the required data, taking appropriate action, and then determining the facts, so as to plan to take further action which leads back into the cyclical process (Coghlan, 2011, p. 56). This process was used as I collaborated with those interviewed to understand the issues, which were used to inform

the development of the survey questionnaire. It is through collaboration and the co-production of data that both the interview and survey data provided evidence to give XYZ practical, actionable knowledge in the form of options for advisors and XYZ to draw upon to address the advice gap. This differs from the objective knowledge created through traditional positivist science (Coghlan & Brannick, 2010, p. 36). It was evident that the interviewees were interested in the research, providing reciprocity and mutuality to the co-production of knowledge during the research process (Heaton et al., 2016, p. 6).

4.2.3 Mixed Methods

My research was not only influenced by my ontological and epistemological positions as a social-constructionist but was guided by my research objectives. The one-on-one interviews with some advisors, clients, and the executives of the organisation allowed me to identify the issues, and then to investigate their potential impact. Through these interviews the relativism ontology was used as it provided an opportunity to examine what was truth to each interviewee and what facts they used to derive their perspective, whereas with the realism ontology my interest would be in one single truth, thereby eliminating the social-constructionist approach to address the research aim. Although interviews are qualitative in nature, it assisted with a co-production of the salient themes used in the construction of an advisor survey, which was analysed using regression analysis based on the age and tenure of the advisors. Through my need to socially construct an understanding of the issues facing XYZ and my research objectives, I was guided to use a mixed-method approach to the research, whereby the qualitative research through interviews allowed me to explore and identify salient themes, while the quantitative research provided an opportunity to investigate and quantify the issues. Conducting the interviews before the survey questionnaire was delivered to the advisors was important to construct an understanding of the issues facing the industry and more specifically how advisors' options could assist them with continuing to service ISIA.

The development and analysis of the survey questionnaire provided the research with rigour (Mode 1) (Tranfield & Starkey, 1998), as it provided a statistical analysis of the population of the survey responses, especially where the survey respondents closely resemble the advisor population, as for example in age and tenure distribution. This assisted with an understanding of the research problem and actionable items that financial advisors could use to continue to service ISIA. The qualitative analysis of the interviews provided the research with relevance (Mode 2) (Huff, 2000), as this provided a voice to the research through sense-making and sense-giving (Gioia & Chittipeddi, 1991). The qualitative research allowed me to question my hidden assumptions and isolate and address the research from additional perspectives and lenses, using my relativist ontology. Addressing the new regulations and the widening advice gap using the action research modality has provided me with an opportunity to question my hidden assumptions in collaboration with advisors, clients, executives, and other external stakeholders, leading to double-loop learning. It is through double-loop learning that my view of the problems/issues dramatically changed, as well as the action taken to address them (Lüscher & Lewis, 2008, p. 223).

The inclusion of qualitative research is also emergent and embedded with emotion, which can contribute and improve commercial qualitative thinking and research (Keegan, 2009, p. 243). This is particularly important as XYZ is a CAS, and the emergence that results from complexity science has assisted me as a researcher with understanding the complexity of human interaction and how humans make sense of the world as they experience it (Keegan, 2009, pp. 238–242, citing Stacey et al., 2000). My use of qualitative research (interviews) captured some of this emergent and embedded emotion in the research findings.

During my qualitative research, I was working as a social constructionist (using an inductive approach), whereas my quantitative research required a deductive approach. Miles et al. (2014, p. 43) suggest that mixed methods are a genre of inquiry that can provide research with analytical texture, and how the strengths of one genre can make up for the deficiencies of another. They also note that the results presented by each

genre can either support or contradict each other which can strengthen or modify the analytical findings. As a result, qualitative and quantitative methods can be complimentary to each other (Sale et al., 2002, p. 43). However, Burrell & Morgan (1979, p. 23) claim that research paradigms cannot be mixed, suggesting that one is either researching as a positivist or a subjectivist, but not both. Johnson & Onwuegbuzie (2004) challenge Burrell & Morgan's position and suggest it is time for a new paradigm. One new paradigm would be mixing both qualitative and quantitative approaches through triangulation which can lead to rigour, thereby adding validity and strength to the research findings (Jick, 1979).

Lincoln & Guba (1988), naturalistic researchers, do not believe that the traditional criteria for judging quantitative research (internal validity, external validity, reliability, objectivity) can be applied to qualitative research. They developed an alternative criteria for judging qualitative research (credibility, transferability, dependability, confirmability), since qualitative research rejects the realist assumption that reality is external to an individual's perception of reality. Researching from the relativist ontology will require that the participants in the research be the ones to judge the legitimacy and credibility (internal validity) of the results, whereas those wanting to generalise or transfer (external validity) the qualitative research to other settings or contexts will be the required to do the generalising to a different context. The dependability (reliability) of the research requires that the research accounts for the changing context in which future research takes place, and not the repeatability and replicability required when accessing the reliability of quantitative research. Finally, the confirmability (objectivity) of the research was achieved by speaking with some of those interviewed and surveyed in the research, which allowed me to conduct an audit of the data obtained. My constructionist epistemology has allowed me to use triangulation for the interpretation and analysis of the data, through my mixed-method approach, improving my ability to meet multiple needs and interests, thereby increasing the authenticity and transferability of the qualitative research (Creswell, 2013, p. 158).

4.3 Data Collection

4.3.1 The Interviewee Selection Process

The research involved interviews and a survey questionnaire. The interviews at the start of the research were conducted with samples of advisors, clients, executives, and other stakeholders, in that order. The survey instrument was embedded in an e-mail and sent to the population of 704 advisors in XYZ. Another round of interviews was conducted with the executive team after the results of the survey instrument were compiled and analysed. This provided an opportunity to receive additional feedback concerning the results and insights into how actionable knowledge from the findings could be disseminated to the advisor population of XYZ.

First, a pilot for the proposed advisor interviews was conducted. The pilot involved two advisors from my XYZ branch office. The pilot with the advisors was deemed appropriate given that they were available on short notice. They also share a similar interest in the research topic as those participating in the research interviews. The most significant difference between the pilot interviews and the actual interviews was my ability to ask more probing questions, while remaining less opinionated concerning the questions asked. For example, asking whether an advisor dealt with ISIA required me to probe into other issues such as to whether they segment their clients, and if so how. By asking probing questions, I was able to obtain more informative data. A pilot case study of the interviews provided me with the opportunity to test and refine my planned research questions (Yin, 2014) it also provided me with the process of reflection-in-action and reflection-on-action (Schön, 1983).

The advisors considered for the interviews comprised the 27 advisors from two Northern Ontario branches of XYZ. These branches were selected as the same individual owns both branches, providing manageable access to advisors, given the working relationship

and respect between the branches. I also work in one of the branches, providing me with an insider role to the advisors and their management teams. Conducting interviews with these branches was appropriate given that these interviews were conducted face-to-face and required me to travel a fair distance to one of the branches. The 27 advisors were sent an introduction e-mail requesting their participation in an interview; in total ten advisors responded and were interviewed. Various topics were discussed (Yeomans, 2015b).

A pilot for the proposed client interviews was conducted with five of my clients, as they were not included amongst the clients for interview purposes in order to eliminated any potential bias in the responses. The pilot involved asking questions about their relationship with the CFSI and with me as their financial advisor. It was discovered that my clients struggled with explaining how I was compensated. This struck me as odd, as I have been articulating, demonstrating, and documenting my fees with clients for the last two years in preparation of the new fee transparency regulations. It was determined that asking clients not only if they knew how their advisor was compensated, but also whether they could explain advisors' compensation, would be more meaningful. During the pilot interviews the discussion concerning technology was interesting as clients seemed to think that the CFSI was very technology savvy. This was a very different response from the pilot interview with advisors. Clients were therefore asked about their general understanding of the use of technology in the industry and by XYZ. The final advisor and client interview questions were informed through the pilot interviews with my five clients and the two advisor interviews.

As with the advisor interviews, the clients selected were from the same branches. The client selection process involved asking the advisors to suggest the names of clients that I should interview. This process was important as I did not want my fellow advisors to think I was going behind their backs to contact their clients. Some advisors were uneasy with this and did not wish to cooperate; others were very helpful. Advisors were also asked to provide me with clients with more than or less than $150,000 of investable assets, with the intent of getting as varied a group of clients as possible. The advisors

contacted the client to see if they were willing to participate; if this was the case, I would call them to introduce myself as the researcher and to obtain their e-mail address so that I could send them the participant information sheet participant consent form. After sending each client an e-mail, I waited two days then followed up with a phone call. During the phone call the individual would accept or refuse the interview invitation and, if accepted, I would schedule a date for the interview. Twenty-one clients agreed to be contacted. I decided to stop after nine interviews as I was not obtaining anything new or meaningful from the interviews. Seven interviews were conducted in person and two over the phone with various topics discussed (Yeomans, 2015d).

The executive team of XYZ was considered for these interviews, and consent was provided by four senior executives to be interviewed. I interviewed three executives at their head office in Toronto, and interviewed a fourth over the phone. During these interviews various topics were discussed (Yeomans, 2015d).

Two other external individuals were referred by an influential member XYZ. This organisational member introduced me to these external individuals by e-mail. I then e-mailed these individuals details of my study, and obtained their consent to be interviewed. These interviews were open-ended, as I was more interested in having these individuals lead the conversation. However, I did introduce questions into these interviews from the previous interviews with clients, advisors, and the executives, to maintain a focus to the informal interview structure.

4.3.2 The Interview Design

The face-to-face interviews were conducted by me either in my branch office or the office familiar to the interviewee. Audio recordings were made of all the interviews so that they could be transcribed and coded for themes, which assisted with the development of the survey questionnaire.

The interviews were structured as a mix of in-depth and open-ended questions, which were developed from my experience as a financial advisor facing the regulatory changes, in addition to the themes that arose from the review of relevant literature. The use of interviews allowed us to explore the issues together, which resulted in the development of a narrative, while providing a holistic approach to the research (Romero et al., 2003, p. 77). I also used a semi-structured interview style, as this allowed me to obtain a higher degree of personal and confidential responses from those being interviewed. As well the questioning techniques of laddering and probing were used to obtain enriched interview data (Easterby-Smith et al., 2012, pp. 128-129). These interviews provided me with the perspectives of those closely connected to my individual practice concerning the new financial regulations and how technological changes are impacting the way in which ISIA will gain access to financial advice in the future. The interviews also provided an opportunity to compare and contrast the perspectives provided by the different groups of stakeholders interviewed leading to a co-production of themes for the advisor survey. The practical arrangement for the interviews is discussed in Chapter 5.

4.3.3 The Survey Questionnaire

After reflecting on the coded interview transcripts, another wave of analysis was conducted. In doing so the concepts and themes that arose across the four groups of interviewees were compared and contrasted, allowing for another wave of the interpretations of themes, to articulate an understanding of the research setting (Rubin & Rubin, 2004, p. 201). This also assisted with the development of the research by drawing on broader theoretical conclusions based on the literature presented, as the intent of the research is to develop options to assist financial advisors with a way to continue to advise ISIA. The themes identified from the interviews assisted with informing the development of the survey questionnaire for advisors. As a reflective practitioner, this was an important step, as it allowed for an examination of the industry

through as many different lenses as possible while making sure I was not jumping to conclusions or making assumptions regarding the interview data collected (Fulton et al., 2013, p. 37).

The survey questionnaire was developed using the paid subscription plan offered through SurveyMonkey (2015) and sent to the 704 financial advisors who work for XYZ. The survey was sent via e-mail by the organisation's three Regional Vice Presidents (RVPs). Included in the body of the e-mail was a letter from the President of the organisation (Yeomans, 2015e), introducing me as the researcher and the purpose of the survey questionnaire. The data was compiled using SurveyMonkey. The analysis of the survey is in Chapter 7.

4.4 Data Analysis

4.4.1 Analysis of the Interview Data

The audio recordings of the interviews were transcribed using Dragon Naturally Speaking (Nuance, 2015), a speech recognition and transcribing programme. I listened to and dictated both interviewer and interviewee comments. Transcribing allowed me to capture the essence of the interviewee by noting their true language and their pauses and intonation. Vogal (2005) notes how the analysis of interview data requires numerous stages, with the first stage being the recognition of concepts, events, themes, and topical concerns from the interviews. Using Excel, the questions asked were listed along with the interviewee's demographics and location. Each interviewee's responses to the questions were then pasted into the spreadsheet as paragraphs or chunks of data. Miles et al. (2014, p. 73) note that reading and reflecting on chunks of data can allow you to find meaning in the data. From this I was able to determine the salient points from each interview. The analysis also involved using different coding techniques such as

descriptive coding, In Vivo coding, and process coding (Miles at al., 2014, p. 74–75). The transcriptions were read again allowing me to identify the salient themes, which were highlighted with different colours to easily identify them in the transcribed interviews for further analysis. The themes identified in this first wave of analysis were: industry issues, advisor practice issues, technology, advice gap, and entrepreneurship. There were also nineteen subthemes identified in the analysis located in Section 5.5.

The transcriptions were read again along with another round of analysis of the spreadsheets. From this analysis, it was apparent that many themes overlapped, for example, those concerning industry issues and practice issues. Therefore, the themes were reduced to a more manageable list of four themes with subthemes for each, these can be found in Sections 5.5.1 – 5.5.4. A second spreadsheet was used to reduce the interview responses down to a few sentences or words. The second spreadsheet was done in order to develop a narrative description of the interviews provided in Chapter 5. Member checking (Harvey, 2015) was also conducted on five advisors, four clients, in addition to all the senior executives who were again interviewed at the end of the research allowing them to review the comments made by advisors, clients, and themselves, all of which provided an opportunity to test the 'credibility and confirmability' (Lincoln & Guba, 1988) of the interview data.

4.4.2 Analysis of Survey Data

The survey questionnaire was informed from the themes identified from the interviews. An analysis of the survey provided the research with a count concerning the opinions or characteristics of the respondents (Oppenheim, 1992). Using statistical analysis provided a more accurate understanding of the research topic as it relied on the views from different perspectives (Ekinci, 2015, p. 27). The analysis of the advisor feedback will provide valuable insights into the advisors' practices. It will also allowed the

research to examine what is working and what is not, providing the evidence that can be used to develop options for the organisation to use in order to continue servicing ISIA.

4.5 Ethical Issues

Considerations were made for any ethical issues that could arise and how they would be addressed during the research process. Guillemin & Gillam (2004, p. 263) discuss the difference between two different dimensions of ethics that take place during the research process. First, involves the approval of the ethics committee to pursue research involving humans (procedural ethics) while the second involves those ethical issues that could arise during the research (ethics in practice). This section is set out as follows: procedural ethics (4.6.1), ethics in practice (4.6.2), and other ethical considerations (4.6.3).

4.5.1 Procedural Ethics

The research proposal was presented to the ethics committee and was approved. I removed my clients from the research as this could introduce bias into the research results. The ethics committee also required procedures for providing potential participants with information concerning the research and a participant consent form. I also received a letter of approval from the President of XYZ granting me access to advisors, clients, and the executive team for both the interviews and survey questionnaire. The letter was important as it provided evidence of XYZ's support for the research and their commitment to ethical considerations and the meaningful work this research would provide to the organisation.

4.5.2 Ethics in Practice

Before each participant took part in the interviews, they were e-mailed an introductory letter, the Participant Information Sheet, and the Participant Consent Form (Yeomans, 2015a). The Participant Information Sheet provided an overview of the research. It also explained how they were selected and why they were being invited to participate. The Participant Consent Form made clear that participation was voluntary and that they had the right to withdraw anytime without explanation and without incurring a disadvantage. The Participant Consent Form required the participants to initial beside eight statements, as well as sign and date the document. This layer of consent assisted with improving participant support and trust (Creswell, 2013, pp. 152-153). The consent form was another layer of support to their confidentiality and anonymity throughout the research and in the final report.

The executives of XYZ felt that advisors would be more supportive of the research if the survey questionnaire was sent by them. This provided evidence to respondents that the research was approved and was deemed important by XYZ. The introductory letter sent by the president introduced me as the researcher and provided the aim of the research. Once the advisors clicked on the embedded survey link, embedded in the e-mail, they were taken to the survey. However, before they began the survey the Participant Information Sheet (PIS) was provided. After reading the Participant Information Sheet, they would move on to the Participant Consent Form, which required the advisors to approve each of the eight statements before moving on to the questionnaire.

4.5.3 Insider Research Issues

Ethical issues could also arise from my dual role as an advisor and researcher of XYZ. My role as an advisor in XYZ allowed me to conduct research as an insider-action researcher and provided me with a pre-understanding of the organisation (Coghlan,

2001, p. 49; Roth et al., 2007, p. 47; Björkman & Sundgren, 2005, p. 401). My insider researcher issues have been addressed by pursuing reflexive action research as a two-cycle process. The first cycle relates to my problem-solving responsibilities and interests, while the second cycle relates to my responsibilities and interests as a researcher (Judy & Peter, 2001, p. 50). I used Björkman & Sundgren's (2005, pp. 406–412) four features of framing and selecting the research topic. The first feature required me to find a red-hot issue, important to those involved in the research process. The second required me to use my insider role to interact and collaborate with XYZ. The third feature required me to diffuse research results, which was done by remaining in contact with the executive team and some of the advisors throughout the research process. Finally, the results were presented to XYZ's executive team allowing me to move the research findings into actionable outcomes for the advisors, to assist them with continuing to service ISIA. Through each of these four features I was using reflexivity in the research process, which required me to examine and reflect on the data being gathered, the participants, myself as the researcher, and the context in which the research would take place (Guillemin & Gillam, 2004, p. 273). Reflexivity assisted with keeping the research focused, especially when my own hidden assumptions conflicted with some of the research findings during the interviews. It also assisted me with overcoming the ethical and political issues involved in conducting action research (Hilsen, 2006).

There may also be the risks associated with interviewing advisors, clients, and executives. Clients who have small investment accounts may assume that the industry is going to abandon them as a result of the new regulations, whereas advisors may think that their way of conducting business was being threatened if they continue to deal with numerous ISIA. The executive team may feel that the research could threaten the strategic focus of the organisation. It was explained to all participants that by obtaining their responses, a complete understanding of the issues posed by the new regulations would be brought to light, thereby assisting with the options financial advisors could use, for continuing to service ISIA. It was evident from the literature that other countries have been struggling with similar regulations and the unintended consequences of an

advice gap after the regulations were introduced (Clare et al., 2013; Europe Economics, 2014; White, 2014). As a result, the organisation, advisors, and clients were all very welcoming of the research topic and the results that would follow.

4.6 Limitations of the Study

The research was conducted as a single case study limiting the findings to one organisation. However, the findings should provide insights for other organisations in Canada who are subject to the same financial regulations. Another limitation may be the level of technology being used in XYZ, compared to others in the industry, limiting the value of some of the research findings for the more technologically advanced organisations, who have been able to improve practice efficiency and client engagement.

The interviews were conducted with only the advisors and clients of two branches, as time and money were factors in the decision. The inclusion of more advisors and clients across Canada may have presented new information that could have been used to address the research. As the survey was administered through e-mail, there is the potential that this could create limitations to the research findings. This concern may have been mitigated as advisors all have an e-mail address, which is used by the organisation to communicate corporate information.

4.7 Summary

The development of my epistemological and ontological positons resulted in my research using social-constructionism and the deployment of the action-research process using a single case study, allowing me to develop a contextual understanding of a real-life issues facing XYZ through various lenses. A mixed-methods approach was determined as ‘best practice’ for the research and objectives. Using a qualitative

approach through the interviews allowed for a social construction of the issues facing XYZ, while the quantitative data allowed the themes determined from the interviews to be further examined through the survey questionnaire using statistical analysis and regression on the age and tenure of the advisors. The use of a mixed-method approach assisted with triangulating the research findings and with the development of the options to assist advisors with servicing ISIA, in both parties' best interest.

In chapter 5 the interview selection process is provided for the qualitative component of the research. The transcription and coding techniques used to analyse the data assisted with the identification of themes and subthemes providing the perspectives from the groups of stakeholders interviewed. This data is provided as a narrative for the themes and subthemes offering a social construction of the issues facing XYZ, stemming from the new regulations. It was important to gather the qualitative interview data first, as it was used to inform the development of the survey questionnaire, both of which will assist with developing options for advisors to use to continue to service ISIA.

Chapter 5

5 The Interviews

This chapter discusses the selection process of the ten advisors and nine clients interviewed from the two Northern Ontario branches of XYZ, as well as the four members of the organisation's executive team, and two external stakeholders. This cross section of interviewees gave the data a broad spread, reducing redundancy. The main intent of these interviews was to provide an understanding of the issues impacting XYZ. The themes (financial regulation, advice gap, entrepreneurship, technology) are discussed as a narrative from the four groups of interviewees providing different lenses for examining issues presented by the new regulations. This process provided an opportunity for reflection as a researcher and assisted me with overcoming my own biases and assumptions concerning the impact the regulations are having on the CFSI. From the methodology discussed in Chapter 4, and the use of mixed methods for data collection, the decision to gather interview data first was important to scope the issues and provide guidance for the development of the survey questionnaire (Chapter 6).

Section 5.1 interviewees, 5.2 identified themes, 5.3 a summary.

5.1 Interviewees

The clients and advisors considered for the interviews were from two Northern Ontario branches of XYZ. The idea was to get as varied a group of advisors and clients as possible. Ten advisors were interviewed from the 27 advisors, five from each branch, and various topics were discussed during these interviews **(**Yeomans, 2015b). The response from the advisors concerning this research was positive, as they verbalised

their interest in the topic and the concerns they have about the new regulations and the widening advice gap. Advisor #8 said:

> *This is insightful work that will help the average advisor . . . if the end result is made available to them and somehow presented in a way that makes it clear that this is coming, that this is real . . . Otherwise, the endgame will be very negative for a lot of advisors. It is not altogether different from when the industry was all front-end, and there was this new product called DSC coming and a lot of people ignored it and clung to front-end, and now they're out of business. When in fact, the industry was in its infancy, and they missed the entire growth of the category because they were resistant to that one change . . . This is happening again, get the word out . . . They think the industry is mature, but the computer industry was mature until the personal computer arrived, so what is next in this industry?*

In total, 21 clients were contacted; nine accepted the interview request, seven from the Sudbury branch and two from the North Bay branch. Five clients had assets under $150,000 (smallest $50,000) and four with assets over $150,000 (largest $2,000,000). Various topics were discussed (Yeomans, 2015c).

Four members of the senior executive team agreed to be interviewed. Three interviews were conducted face-to-face at the organisation's head office in Toronto, and one over the telephone. Various topics were discussed (Yeomans, 2015d). Two additional interviews with external stakeholders were conducted over phone. These interviews provided an external perspective concerning the regulations. One was an international business consultant who specialises in coaching financial advisors with achieving practice excellence; the other was a member of one of the ETF associations in Canada.

Those interviewed provided the means to examine the reality of others outside of my stance as a researcher, providing an opportunity to share a lived experience with others (Cuncliffe, 2002). The interviews also provided a shared commitment to the objective

nature of the action research which will assist XYZ with democratic social change (Brydon-Miller et al., 2003, p. 13). By transcribing the interviews, I was able to examine the questions asked during the interviews by coding the data so that I could retrieve the identified concepts and themes mentioned by the interviewees (Rubin & Rubin, 2004, p. 201).

It was important first to speak with the financial advisors, to gain their understanding of their perspectives concerning the regulations and the advice gap. Next, the clients were interviewed to determine differences and similarities between the understanding of the regulations and industry from the perspective of the advisors and clients. Allowing clients the opportunity to participate in the research process provided valuable insights into the research aim. Insights from advisors and clients allowed the questions in the executive interviews to be clearly defined. The executive interviews were conducted to understand the role of XYZ going forward. Finally, two external stakeholder interviews were conducted, providing an external lens to the issues facing the CFSI. The information obtained assisted with my self-awareness, by understanding myself as a professional, making me more aware of my values and biases, providing me with a complete knowledge of what the research focus was through the process of reflexivity (Fulton et al., 2013, p. 37). The results from these interviews were used to inform the development of the survey questionnaire (Chapter 6) sent to the financial advisors in XYZ.

5.2 Themes Identified

After transcribing the interviews, I used Excel to list the questions asked during the interviews as well as the interviewee's demographic (gender, years of service, location, and assets under administration (AUA)) information. The responses were then posted as chunks of data into the Excel spreadsheet, allowing me to reflect on the data to determine the salient points from each interview. The techniques of descriptive coding,

In Vivo coding, and process coding (Miles et al., 2014, p. 74–75), were used to examine the data. The transcriptions were then read again allowing me to identify the salient themes. Highlighting the themes with different colours allowed the themes to be easily identified for analysis.

The first wave of analysis resulted in five themes and nineteen subthemes:

1) Industry Issues
    a. Increased regulations stemming from CRM II
    b. Demographics of the advisor population
    c. Future of the industry
2) Practice Issues
    a. Fee disclosure
    b. Capacity
    c. Cost of running a practice
    d. Succession planning
    e. Hiring junior advisors
    f. Client segmentation
    g. Team-based practices
    h. Ideal client and ideal advisor of the future
    i. New product innovations
3) Technology
    a. Improving operational efficiency
    b. E-docs, client portal, Client Relationship Management (CRM*) programme
    c. Robo-advisors
4) Advice Gap
    a. How to effectively service Investors with Small Investment Accounts (ISIA)
    b. Client reactions to advisors potentially shedding Investors with Small Investment Accounts (ISIA) from their practice

5) Entrepreneurship
    a. Collaboration
    b. Creativity and innovation

After coding and isolating the themes from the interviews, I determined that the list of themes was extensive, as many themes overlapped for industry and advisor practice issues stemming from the new financial regulations. Reducing the themes derived from the four groups interviewed resulted in financial regulations (5.2.1), advice gap (5.2.2), entrepreneurship (5.2.3), and technology (5.2.4). The subthemes for each of these themes are discussed together with a narrative concerning the issues facing the advisors, clients, and XYZ.

5.2.1 Financial Regulations

When asked whether CRM II regulatory framework would change the advisors relationship with their clients, the response was that those who do not generate enough income for the advisor's practice, will not get advice, while large investment account holders may expect more from their advisor. Advisor #2 suggested that fee disclosure may provoke more contact from their ISIA. This comment was counterintuitive, as it infers that fee-transparency may force ISIA to participate more actively with their advisor in saving and planning their financial future. Advisor #6, who is compensated 50% with Deferred Sales Charge (DSC) business, was concerned with the potential ramifications of CRM II and how it could impact their practice and client relationship, said:

> *Will I be able to stay in business? What is going to happen to the compensation? Will I need to trim resources now, because I cannot afford to be in business under this model? Are we turning away people that really*

> *want our help? And the whole intergenerational wealth issue, it is so connected, everything is so connected.*

When asked how important the portfolio was in their relationship with clients, the comments were that it was either irrelevant or not that important. Advisor #9, when reflecting on the changes made to their practice, mentioned that "I think over the last 15 years since I've been here, there's been a shift from product focus, where we were picking à la carte funds to more of an asset allocation process-driven platform, that focuses on the product to get you there, but you know, now we're focusing more on the plan [written financial plan] and what is more in our control from a planning perspective." This response was different from those of the clients, as eight clients felt the portfolio was a "very important" component of the advisor/client relationship. I feel the different response from advisors stems from the fact that advisors are beginning to examine other aspects of their relationship with their clients, which they would consider part of the value proposition they offer. These other aspects include estate and insurance services, behavioural coaching, financial education, and financial planning. I can say for certain, the portfolio is significant; however, with the regulatory focus on transparency, advisors have been trying to differentiate themselves and what they bring to the client/advisor relationship.

When asked if they were facing any issues as a branch, the following themes arose. The number of advisors may shrink given the downward pressure on compensation. One branch noted that the only new hires are relatives of established advisors, which could be an indication of the barriers to entry in the industry today. Advisor #8, who is also the manager in both branches, noted their concern with the advisors' lack of preparation concerning CRM II, as "change breeds fear and there is an element of that because people due to a lack of understanding are somewhat concerned and may overreact to an unknown." Advisor #3 is struggling with how to compensate their sons, who have joined their financial-planning practice. Advisor #4 has put off hiring a junior advisor until they have a better understanding of their compensation.

When asked if they were aware of the new financial regulations, only two clients were. One remembered having discussed the new regulations with their advisor, while the other heard it discussed in the media. When asked if they knew how their financial advisor is compensated, three clients said they did, two having assets over $150,000 and one below $150,000. However, they could not explain advisor compensation perfectly. Client #6, with over $150,000 invested, responded with "my advisor is paid through trailer fees, embedded fees, and front-end load, and the embedded fee is a fraction of the MER, about 0.5%". Although this client could explain the compensation structures, they underestimated the embedded fee, which was 1%. The differing responses echoed the results of the survey conducted by Knowledge@Wharton (2007), in the USA, and the Investments Funds Institute of Canada (IFIC) (2012), in Canada, which provided evidence that most clients are unaware of the compensation arrangement with their advisor.

The executives were asked whether XYZ had prepared financial advisors for the regulatory changes; executive #1 mentioned how "I remember speaking about this at conferences in 2012 and then previously in PD [professional development] days, and ever since then it's just been a continuous, don't lose sight of what's coming." Executive #2 notes that XYZ has "identified the issues and has given the advisors the tools to deal with the changing environment . . ." When asked to rate the advisors' preparedness of CRM II, on a scale of one to ten, with ten being prepared, executives #1 and #2 scored the preparedness at a seven, while executive #3 could not answer stating "it is on a case-by-case basis".

When asked what issues financial advisors were facing, executive #2 noted that "as you start to unbundle fees, I think there will be more direct fee relationships and all of that kind of gets bundled into the broad topic of change management. Those that can adapt will do very well, those that cannot will be challenged." Although advisors must change with the regulations, they must also, as executive #1 noted, be "required to understand, appreciate, digest, and then be able to articulate to their clients [the regulatory changes] in a manner the client will be able to understand." This comment speaks to that made by

client #2 about the language used in the CFSI and how advisors must be able to communicate in a language understood by clients. Nonetheless, with all the regulatory changes, executive #3 mentioned how the industry will change and how this will make it difficult "finding quality new clients . . . Advisors also face issues around . . . succession, the demographics of not just our channel, but the advisory channel in general."

They also noted how the role of the financial advisor would change:

> *From all of the things that we traditionally offered up as our value proposition, our ability to plan, our ability to choose investments wisely, our ability to search the markets for appropriate products, I think those types of things will all be rendered largely to technology very soon . . . while more focus will be on . . . managing the relationship, about coaching, assisting clients with staying the course, to assist them with making appropriate changes when they should . . . while the major differentiator will be having . . . access to the advisor for that face-to-face time.*

The international business consultant interviewed specialises in coaching financial advisors with achieving practice excellence. When asked if they felt that the new transparency regulations would cause advisors to only focus on larger accounts, they noted:

> *I think this whole trend towards minimum account sizes and trying to focus on the higher net worth clients may, in fact, be passé to a certain extent. My reasoning for that is, I think we are going to go through a tremendous margin squeeze, as products shift, for example from mutual funds to ETFs and the like, and as consumers become more discerning about fees. I think we are going to see a margin squeeze for advisors and rather than trying to limit their practice to a small number of larger clients, they might want to expand the number of clients they have by providing service to some who*

> *would not normally qualify because of asset size, but at a lower cost. I think that lower cost is going to be achieved through technology more than anything.*

From the interviews, it was clear that the new financial regulations stemming from CRMI and II are reshaping the CFSI. The subthemes for financial regulations derived from the interviews are fee-transparency (5.2.1.1), fee-based compensation (5.2.1.2), ETFs (5.2.1.3), and the proposal of a fiduciary standard (5.2.1.4).

5.2.1.1 Fee-transparency

The advisors/executives felt the entire MER should have been made transparent by the regulators, not just the dealer portion. Advisor #6 was concerned about how the new regulations were created, stating that "the problem is that when the regulators are negotiating, they are negotiating and talking to the banks and the mutual fund companies, and for those guys the number one thing is to protect their own interests and their own dollars coming in. They don't want to see change, so they throw us to the wolves and say these are the guys [advisors] you have got to do something with . . ." The consensus was that the entire MER (cost) should have been made transparent so clients could make an informed decision. It would also put pressure on the mutual fund companies to lower the costs they charge, instead of putting pressure only on those who provide advice to clients.

When asked their opinion about the regulators only making the dealer fee transparent, Executive #2 noted that "most industry players were arguing for the full cost of disclosure that is what's important for the client and it was the regulators that said no." The member from the ETF Association felt that only making the dealer portion of the MER transparent would make it difficult for clients to understand the total fees associated with investments purchased. They also noted that it was very clear that "both the European regulators and the British regulators, which the OSC listens to very

closely, stated that disclosure does not work . . . instead . . . the solution is removing embedded commissions." It then makes sense that by moving to a fee-based model, disclosure would no longer be an issue, like it is with embedded compensation since investors receive disclosure of compensation when in a fee-based relationship. It also removes the inherent conflict of interest involved with embedded commissions.

Advisors are comfortable with making fees transparent, as they mentioned how they have been doing this for years through their ongoing fee discussions with their clients and the recent requirement of CRM II to disclose dealer compensation. There was a general concern that when clients begin to receive an annual statement of the fees paid to the dealer (XYZ) it could lead to 'sticker shock' by clients and downward pressure on dealer and advisor compensation. Advisor #7 mentioned that "client meetings are 75% longer, because of the regulatory requirements . . . and are now longer because I'm not skipping over the education component, so it might take longer for me to cover all the information that I feel the client needs from a learning capacity and also for regulatory requirements."

After explaining the new financial regulations to clients they were then asked their thoughts on fee and performance transparency. The clients were unsure about the transparency of fees. Client #5 said fee transparency would allow them to "make an informed decision". Client #2 said ". . . You can talk percentage all you want. You may start out with say $50,000, and what is 1% [fee], but then when you get up to the level that I am at [over $400,000] . . . It is like, wait a minute that is a lot of money, it is not only a wake-up call for the industry, it is a wake-up call for the investor." Conversely, client #8 said, "not seeing it [the fee] is a blessing in disguise; it keeps me going back because I feel like I have not paid my financial advisor a cent." Client #5 echoed this comment when they said: "I don't think people are happy seeing a big fee being taken out [in the case of fee-based], but if they don't know the fee is being taken out because it is embedded, well I would personally prefer that." Client #5 has both a fee-based (transparent fee) and embedded investments, and preferred the embedded model for the reason noted.

5.2.1.2 Fee-based compensation

With respect to fee-based compensation the advisors noted that the current minimum account size required of $150,000 for XYZ fee-based platform needs to be lowered. Advisors mentioned how if the regulators implement a fee-based model, their clients under $150,000 would not be eligible to obtain their advice. Advisor #10 felt that the organisation was aware of the changes, as they were quoted saying "I think they're paying a lot of attention to where the business is headed and I think they are doing things to the best of their abilities to keep us on track, and they are not . . . running away from fee-based . . . They are embracing it and saying this is the wave of the future, except it."

When the executives were asked if they felt the regulators would discontinue the use of embedded fees for a fee-based model, executives #2 and #3 felt it would occur within the next two to five years. Executive #1 felt it was premature to answer the question, as the regulations concerning fee transparency have not had a chance to work through the industry. When asked whether they liked the current fee-based platform offered by the organisation, executives #2 and #3 felt that it needed to be improved. For example, allowing the billing to be done more frequently than quarterly to align with the advisors' monthly practice expenses. They would also like to explore automatic tiered pricing, whereby clients would pay a lower fee on a percentage-of-assets basis, as they break through certain asset thresholds. Executives #1 and #2 would like to move away from a minimum required account size, thereby allowing advisors to service all their clients using XYZ's fee-based platform.

The ETF Association member mentioned that the reason many advisors have not embraced the fee-based platform is that "advisors do not know how to even begin to look at their client base to figure out how much they are earning on each client and how much each client costs . . ." I have faced a similar concern when looking at my practice and the move to a fee-based practice. They also noted that using "a fee-based account not only does your product universe expand [as a financial advisor] to include ETFs, but

it also expands to include a lot of mutual funds and other products that do not have trailer fees . . . So your universe of products expands enormously." The majority of XYZ advisors are licenced through IIROC and are predominantly using embedded commission. Consequently, advisors moving to a fee-based platform may begin to recommend investments that they would not have done previously.

5.2.1.3 Exchange-Traded Funds (ETFs)

During the external stakeholder interviews the business consultant felt the ETF market in Canada would grow. I explained that during my advisor interviews, advisors seemed reticent about using ETFs in their practices. The business consultant interviewed noted how they have "seen an increasing move toward low-cost investments; I think it's going to be mandatory. The thing about the younger generation coming up is that they are far more aware and have more access to information, and they shop among their friends and online, so the issue of fees is going to be important." The low-cost investment this individual was referring to were ETFs.

The ETF Association member responded by saying "I think the main reason, why on the IIROC side, that ETFs are not being used as much as they are everywhere else around the world, is because they only make sense in a fee-based account." They also noted the growth of ETF sales in the USA and how some financial advisors, who have embraced the use of ETFs in the USA, are termed ETF strategists. These ETF strategists would rely on the portfolio management expertise of these ETF firms to monitor the economy (macro level), thereby providing advisors with suggestions for their client portfolios. As a result, the ETF strategist would spend more time "on behavioural coaching . . . and . . . what is going on at a higher level, as opposed to having to look inside at what the manager is holding inside the portfolio."

ETFs are considered a lower-cost investment. The move to lower-cost investments appears to have happened in the UK after the fee disclosure regulations and in the

absence of embedded fees; however, there seems to be an increase in the cost of advice (Europe Economics, 2014, p. 82; Weinstein, 2015, p. 65). The member of the ETF Association mentioned how this could occur in Canada as they predict that sales of ETFs in Canada will increase when IIROC advisors start using a fee-based platform. Perhaps the organisation's parent company is preparing for this shift as they acquired an investment company that specialises in actively managed ETFs in October 2015.

5.2.1.4 Fiduciary Duty

Most advisors felt the suitability requirement was sufficient and that there was no need for them to be held to a fiduciary standard. Advisor #7 felt that a fiduciary standard might cause advisors to make investment selections based on lower costs in fear of breaching their fiduciary duty. They provided an example of how one mutual fund company in Canada had a top performing fund for ten years but also had one of the highest MERs. They questioned whether advisors would have promoted the fund if a fiduciary standard existed at that time.

Clients were unaware that their advisor did not have a legal fiduciary responsibility to work in their clients' best interests. Client #5 suggested that "when you mention all the potential best interest categories, don't you think the financial-planning exercise should point you [the financial advisor] in the right direction." This comment was a very intuitive response, given that financial advisors in Canada do have a suitability standard, which requires them to know their clients, know their products, and then select suitable investments. Client #6, who seemed well read on the topic, responded "the term fiduciary duty keeps coming up, and to me, that is implicit in my relationship with the financial advisor. If it becomes explicit, then that would create more problems than what it would solve." This comment was interesting, as to date no legal or regulatory decision exists as to what a fiduciary duty would entail in Canada.

The executives felt it would be inappropriate for the regulators to make a fiduciary duty obligatory for advisors. Executive #2 said "there is no clear definition of what a fiduciary standard means in today's context in Canada . . . [as they felt that] . . . an incremental approach would be a far better way. If you see a gap in policy, plug that gap, instead of just broad brush undefined change to our industry." Executive #1 mentioned that "the concept already exists. If you take appropriate KYC [know your client] information . . . make sure . . . that the risk is reasonable . . . then . . . I think the system that we have in place today is good." This executive was referring to the suitability standard already in place in the industry.

5.2.2 Advice Gap

With the regulations unfolding in Canada, there is a concern that a widening advice gap may occur, as it has in other countries, such as the UK and the Netherlands (Clare et al., 2013, p. 8; White, 2014). The advisors voiced their concerns about the advice gap but also understood that they are running a business and may be required to make changes to their business model to remain viable in the future. Advisor #10, who now has assets under administration (AUA) of three hundred million, when asked whether they believed the new regulations in Canada would result in an advice gap, said:

> *I do, and that's kind of sad actually when you think about the little person. I started personally with $25 a month, and I didn't have $5000 to put in at one time, or one million . . . Lots of my clients started with small amounts every month, and the sad thing is, the advisor can't afford to have those clients anymore, or won't be able to have those clients. So, I don't know what the securities commissions are going to do . . .*

Many advisors noted that they are strategically willing to service ISIA if the account is a child or relative of one of their larger investment account holders, however, they noted how there is only so much capacity in their practice.

When asked if the new regulations could widen the advice gap in Canada, the clients who felt a widening advice gap was possible suggested the following. Client #4 suggested that "a good advisor will find a way to manage time, will increase their portfolio [client base] with a wide range of investors being both small and large, because the small guys will eventually become the big guys [large investment accounts]". The comment by client #8 was interesting as they noted some of the structural issues in the job market today when they suggested:

> *If people are not going to be able to get the advice, like I did, when it comes to retirement time they won't have anything. Jobs now are not like they used to be, they do not offer large pension plans and financial security when you retire. Most of the jobs now last for a few years, and you have to find another job. You're just a number, they don't care [employers], and it's rare to see people hold on to jobs for more than 10 or 15 years with a nice pension plan at the end. So if they don't put money away, they won't have money when they go to retire, and everyone else, the taxpayers will end up paying.*

This comment was an excellent summary of my thoughts on this topic. What are we to do if those who require advice cannot obtain it? What will be the fallout if we have a large segment of the population unable to retire?

When asked if the new regulations would widen the advice gap, Executive #1 is quoted saying "I think that would be an unintended consequence and if that happens, I think the regulators have failed." Executive #2 felt that it would result in a widening advice gap suggesting that:

> *I think there are going to be different ways to service them [investors]. I think, if you just look at the UK and the EU, there will be disintermediation, as smaller accounts will either choose to leave an advisor relationship when they see the fees they are paying, or an advisor will choose not to do business with smaller accounts, in order to create capacity to go after larger accounts.*

This comment speaks to the importance of advisors making sure that they are providing an appropriate level of service for the fees levied. Advisors must also continue to articulate, demonstrate, and document the fees they are charging clients for the services delivered. As discussed in the literature review (section 3.1.1.1), the UK experienced a drop in the supply of financial advice after the transparency regulations took effect.

Executive #2 noted that:

> *Part of the experience in the UK was that the integrated banking distribution firms were just getting out of the business . . . Which shed a lot of jobs . . . Yes, I believe there will be a consolidation of advisors in Canada, because it will require a more clear articulation and documentation of the value being delivered, and I think that there are advisors in Canada that are not providing sufficient value for the fees they receive.*

Executive #2 suggested that advisors may want to explore how they can service accounts under $150,000 if they have a 'significant' relationship to one of their large investment account holders.

When asked whether the regulations could lead to a widening advice gap, the individual from the ETF Association said: "I think what is going to happen short-term is that for the people who have under $100,000 or $150,000, the number [fee disclosed] that they are going to see [on their annual statement] is not going to be shocking, so I don't think

it will worry them as much. I think there are going to be issues with clients between $200,000 and $500,000, who are still in the traditional model with advisors." From this interview it was apparent that the ETF industry feels it can provide an alternative to ISIA "because up until 50 to 100 thousand dollars, you are really saving not investing, so you do not need to be risky, you are looking at cost, and you do not need quote unquote advice." As an advisor, I would still suggest that those starting out may require more advice as they will require behavioural coaching and guidance with cash flow management.

When examining the issue of a widening advice gap, subthemes were revealed, such as client segmentation (5.2.2.1), the intergenerational wealth transfer (5.2.2.2), succession planning (5.2.2.3), and team-based practices (5.2.2.4).

5.2.2.1 Client Segmentation

Five advisors have started to segment their clients based on a combination of the size of assets and the income generated by the clients. The reason for this segmentation was to provide different levels of service based on the revenue being generated by each client. The others have not segmented their clientele yet but would consider it if downward pressure on compensation occurs.

When asked who their ideal client was, those advisors using XYZ's asset-allocation service mentioned that they tend to deal with clients with assets over $150,000. Advisors #3, 4, and 7, who use XYZ asset-allocation service, plan to deal with clients who have more than $250,000, with one strategically deciding to focus on those with over $700,000. These advisors were inclined to deal with professional business owners who have more complex financial needs, which they feel the cost of advice for their services is justified for this segment of their clientele.

When asked who the ISIA were in their practice (those under $150,000), the common theme was that they were relatives or referrals from larger clients, younger clients starting out, and those who have an interest in financial planning. Advisors discussed how these investors require simple investment education, such as the effect of compounding, the time value of money, debt reduction strategies, and tax advice. Advisor #7 mentioned that those with small investment accounts need "tax advice, you encourage them to save, you encourage them to find ways to pay off their debts and make sure they are properly taken care of, and taking care of those general risks that are built into building equity over time."

Executive #2 spoke for the organisation when they said "we believe you should take that capacity [working with small investment accounts] and grow a more profitable business and take a lot more care in segmenting your book, and targeting clients under $150,000 that may be the children of significant relationships . . ." This comment suggests that advisors should consider dealing with ISIA strategically. Executive #1 suggested that it would "depend somewhat on the technological advancements you can bring in to service that account, because a $50,000 account may require very minimal services, as they are just starting out in their career and with their savings."

5.2.2.2 Intergenerational Wealth Transfer

There is a need to continue servicing ISIA as one day they will be large accounts either through additional deposits or inheritance. The ISIA are particularly important given that the millennials are expected to control $890 billion or 14% of Canadian wealth by 2025 (Investor Economics, 2015, pp. 17–18), expected to come from intergenerational wealth transfer. Advisor #7 had a great comment:

> *I think that the industry makes a mistake when they just focus on big clients because future potential revenue is not necessarily going to come from big clients you're going to build, older clients are going to die off, and you need*

> *to have new ones coming in behind them. It's the same in our practice as I'm getting older, I'm going to need younger advisors that are going to bring in new clients and who are going to be around for a long time.*

The executive team suggested that senior financial advisors may want to bring in younger advisors to service those of like age, and to begin the connection with the next generation for the sustainability of the practice and succession purposes. Executive #1 suggested, from his personal experience, having an advisor who is "not that generationally apart" from them was important. When asked what the organisation will look like in five years, executive #2 said that the organisation needs to create "a complex array of services to provide to people as demographics drive more wealth into concentrated hands." The question remains as to how XYZ can connect to the next generation of investors.

5.2.2.3 Succession Planning

The majority of advisors mentioned their plan to hire a junior advisor. Working with a junior advisor would also assist with succession planning in the future. The fear of lower advisor compensation has caused some advisors to hold off on hiring. Those who have hired junior advisors have hired their children, which could lead to nepotism in the industry. However, Advisor #7, who hired their sons, mentions that their sons are friends with many of their clients, giving their practice a connection to the second generation of clients, who will eventually be their sons' main clients after transitioning the practice to them.

When speaking with the business consultant we discussed who would service the ISIA within a practice, and they noted how:

> *The demographics of the advisor community is heavily weighted in the 55 plus age group of people, the baby boomers, who are about to retire. So*

> *there are a whole bunch of reasons why having a junior [younger advisor] in the firm makes sense. One is continuity of the business or succession at some point, but the other is also to retain relationships with a family through involving people through intergeneration.*

These comments echoed those of the executive team, and the advisors interviewed who see junior advisors as a way to connect to the next generation of clients and for business succession planning.

5.2.2.4 Team-based Practices

Six of the advisors interviewed operate within a team-based practice, while four advisors interviewed have hired junior advisors. Some advisors have created a team by hiring a junior advisor who would connect to the next generation, assist in growing the practice, and prepare for succession planning. The remaining advisors interviewed have been looking at hiring a junior advisor for the same reasons, but have not found the right person for the job. Client #4 works with advisors who are part of a team-based practice and noted how they like this business model as they receive specialised service from one advisor who offers insurance solutions, while another manages their investments.

Executive #3 noted the importance of a team-based practice and how advisors of the future must embrace this concept as team-based practices offer "complementary skill sets that help you serve a more diverse client base and succession planning." Executive #3 suggested that "the team-based practice has so many different advantages to it; it provides, hopefully, if well-constructed, complementary skill sets, but also as we talk about demographics and creating a relationship with the next generation, a 30 something-year-old doesn't want to talk to a 55 or 60-year-old advisor, so create generational continuity within a book as well." It will also be important for advisors to team up (insurance licenced advisor and a securities licenced advisor) to share skill sets and deliver a more comprehensive offering to clients. It was apparent that the executive

team has been looking at ways to reduce the average age of XYZ advisors, through what executive #3 termed “junior advisor loans.” These would be loans to senior advisors to assist with funding the salary of a junior advisor. Incremental revenue targets would be set for the advisor’s practice, and if these targets were achieved, over a five-year period, repayment of the loan would not be required. These loans would also assist with succession planning as the average age of XYZ advisors is around 53.The average age of investment advisors in Canada is 58 (Pitts, 2014, p. 30). The executive team has also been looking at training advisors who service the National Accounts Team (NAT) (those accounts not serviced by an advisor in the distribution channel). The NAT employees would then be made available to advisors who would like to hire a junior advisor, thereby taking some of the risks out of the hiring process, such as training and flight risk.

5.2.3 Entrepreneurship

The theme of entrepreneurship is important as it provides a potential means to address the complexity facing XYZ, which is considered a CAS (Mitchell, 2009, p. 12). Nine advisors considered themselves to be entrepreneurs, as they noted the following to describe their entrepreneurial nature: independent, risk-taker, innovative, creative, type ‘A’ personality, no guaranteed income, flexibility in decision-making, and are rewarded over time for their efforts. Even the clients felt that their advisors were entrepreneurs, with the comments that their advisors were innovative, creative, and went beyond the requirements of their job to service them.

The executive team all viewed the advisors as entrepreneurs. Executive #1 noted that the advisors were entrepreneurial given the “principal-agent model” used by the organisation. Executive #3 noted how advisors are entrepreneurs as they are “responsible for growing top and bottom lines in their business [their practice income statement].” They suggested that advisors may be less entrepreneurial now than 20 or 30

years ago given the maturity of the business and the increased regulations, which may hinder entrepreneurship. They also believed that the advisors were “very creative and resilient, and very understanding of the need to change and evolve.”

The subtheme of entrepreneurship from the interviews was:

5.2.3.1 Creating an Organisation Conducive to Collaboration

Among the advisors there seemed to be a consensus that XYZ embraces entrepreneurship. Some of the advisors noted how XYZ should encourage more feedback from advisors, with advisor #10 saying that “I think there are a lot of good ideas out there that aren’t being used.” Perhaps finding a way to harness the entrepreneurial spirit could assist the executive team and the advisors with facing the regulatory changes together. Over half the advisors spoke of the programme developed by one of XYZ’s financial advisors. This advisor took the initiative to share the knowledge they had learned over the years by developing processes and procedures to assist with making an advisor’s practice more efficient. This advisor brought this programme to XYZ; the organisation embraced it and improved upon it. The advisors felt this was an excellent example of entrepreneurship and felt XYZ should explore more advisor ideas.

Asked whether XYZ has tried to harness entrepreneurship, executive #2 felt that XYZ offers many “different initiatives . . . Sharing best practices . . . and . . . the willingness of people to share has been tremendous.” Executive #3 noted that “all we really do from a corporate perspective is facilitate groups getting together, talking about their issues . . . and how . . . a lot of the products we bring to market are ideas from advisors telling us what they want and what they need for their clients.” Next, they were asked whether they felt a group of advisors (entrepreneurs) could work together to remedy advisor practice issues that stem from the regulatory changes. They all mentioned how XYZ is always looking for advisor feedback and collaboration, as executive #1 put it “ I think

so, I think there is definitely an opportunity for advisor input . . . as advisors . . . are in the trenches all day, seeing clients, and know what is causing them issues and concerns." Executive #2 noted the "critical foundation to embracing all of this entrepreneurialism is the sharing what we have talked about . . . requires that the organisation uses . . . a single platform [CRM* programme] where we can go out and take people's best ideas and build on them, that is going to give us a tremendous advantage." This comment not only speaks to the importance of entrepreneurialism but also to the importance of using technology to exploit the best advisor ideas across the country.

5.2.4 Technology

When asked if XYZ is using technology effectively, the advisors responded that XYZ could be doing a better job of delivering technology to advisors, improving efficiency, and the client experience. Advisor #2 said that "our organisation's technology is way behind." While advisor #9 stated that "our organisation has been late to the technology game." Advisor #8 suggested that "the industry is still not servicing people technologically." Perhaps the lack of technology is a systemic issue in the CFSI.

When clients were asked if they felt technology was used appropriately in the CFSI and with the organisation(s) in which they conduct business, their responses were interesting. One client said it was not being used appropriately, while the remaining eight felt that receiving e-mails from their advisor and being able to download statements online was an appropriate use of technology. Additional probing questions were asked, such as do you ever use online conferencing programmes such as Facetime and Skype? Three clients have used online conferencing with their grandchildren or to keep in contact with other service providers when they were on holidays. The response from clients over 65 was that they had used this form of technology and would use online conferencing if their financial advisor offered it. Rickard (2015) presented the

findings from a Canadian Imperial Bank of Commerce poll that reported, while two out of three Canadians would be open to using new technologies for banking and payments, about the same number mentioned that when faced with more complicated issues they would want to meet with someone face-to-face.

When asked if XYZ was using technology effectively, all the executives responded affirmatively. Executive #3 noted that "a lot of the projects we are doing right now involve technology." Nevertheless, executive #1 mentioned difficulty with "integrating technology into an organisation of our size, as it takes a lot of time." When the executives were asked what the strategic focus of XYZ was going forward, from a distribution perspective executive #2 said it was to "build a bigger stronger enterprise, which would allow for reinvestment back into the business, through a more robust digital and electronic technology platform . . . with a focus . . . toward larger more complex integrated financial-planning opportunities." Asked what XYZ will look like in five years, executive #2 mentioned how technology would play a vital role in improving advisor efficiency and the digital experience for the client.

The subthemes for technology are E-docs (5.2.4.1), client portal (5.2.4.2), Robo-advisors (5.2.4.3), and Customer Relationship Management (CRM*) programme (5.2.4.4).

5.2.4.1 E-docs

During the executive interviews I was made aware of how XYZ has been working on the creation of 'E-docs', a tool that will send documents electronically to the client, either as an e-mail attachment or through a link to a website storing the document. The executives mentioned that e-docs could also be used for bringing new clients into an advisor's practice (on-boarding) or to service existing clients when a material change has occurred in their life requiring updated documentation. Technology of this kind

would certainly free an advisor's time (improving capacity), allowing them to focus on providing tailored advice and service to their clientele.

5.2.4.2 Client Portal

The client portal could also be used for ongoing collaboration between the advisor and the client. XYZ is also looking at using technology to improve the onboarding process for new clients, thereby freeing advisor time to tailor advice for their clients. Executive #2 mentioned how technology would play a vital role in improving advisor efficiency and the digital experience of the client. The executives also mentioned how XYZ had launched a 'client portal' which provides a secure means for advisors and clients to share confidential information. The client portal could also be used to provide research and educational videos concerning various aspects of investing and financial-planning topics. The portal could assist advisors with connecting to the next generation of investors who have a relationship with one of their larger clients; a parent could share the educational resources with a child or grandchild to prepare them for a relationship with their advisor. Visual Capitalist (Desjardins, 2015) conducted a study on how millennials select a real-estate agent and what they want in a first home. They mentioned that the millennials are the first generation to be raised with the internet, smartphones, and social media, terming them "digital natives", and how 45% found their real-estate agent through a friend, neighbour, or relative. Having a digital experience to share with this demographic would assist with solidifying a relationship with the next generation of investors.

5.2.4.3 Robo-advisors

One of the most disruptive technologies to the financial service industry is that of Robo-advising. Yamada (2015) notes that just like Uber, which has disrupted the taxi industry in Toronto through their ride-sharing programme by driving the cost of taxi licences

down from $360,000 in 2012 to $118,235 in 2014, Robo-advisors will disrupt the CFSI through a lower cost-pricing model than that which is offered by traditional financial advisor. Given the increasing technological advancements in the industry, advisors were asked if they would ever consider using a Robo-advising service with their clients. Robo-advice was mentioned to provide an opportunity to educate advisors on this new technology as it could be used to service ISIA.

Advisors indicated how the portfolio is becoming a less important component in their relationship with clients; a Robo-advisor could free up the advisor's time, allowing them to address the other financial concerns facing ISIA. The majority of advisors did not understand what Robo-advising was. Advisors did not know that using a Robo-advisor would allow them to be compensated to deal with ISIA. During the interviews, there was a sense that they felt threatened when mentioning Robo-advising.

When asking clients if they had ever heard of Robo-advisors, only client #6 responded yes, by saying: "it is something that might be used for investors who are just starting out and who have very small investable assets." Client #2 and #7, when asked, said they thought of 'Robo-calls' (Robo-calls, an automated phone-calling system, became notorious in Canada for deliberately misleading voters during a recent election leading to legal action and imprisonment). It was interesting how guarded the advisors and clients were with regards to the term Robo-advisor.

Improving advisor efficiency led into a discussion on the use of Robo-advisors, with executive #3 suggesting that "Robo-advising, from our perspective, is really technology to make the client onboarding and the discovery process more efficient, maybe even a bit more self-directed by the client to a certain point." Executive #4 mentioned how XYZ has put together a Robo-advice committee to evaluate the different options available and to determine whether XYZ can build the services offered by Robo-advisors in-house. Executive #3 viewed Robo-advising as "more of an efficient approach than an asset gathering one." It was clear that many of the new projects that XYZ is working on are different components of the Robo-advice concept. Improving the

digital experience will be required to communicate with the next generation of investors who will be the benefactors of the largest intergenerational wealth transfer in history. It was clear that the executive team was aware of the intergeneration wealth that will pass to the millennials and how new technologies will be required for communicating with this market segment.

The member of an ETF association mentioned that "banks and firms are partnering with them [Robo-advisors]. Most get that if they could partner with certain Robo-advisors who would take accounts up to a certain level, and then once they get to a certain level, the assets [accounts] would be passed backed to the advisory firms as the accounts would require more hands-on management and financial planning." This comment provided an interesting perspective for the use of Robo-advisors. We then discussed whether technology could be used to provide face-to-face meetings with clients. They felt that this was possible, and they even mentioned how one Robo-advice firm in Canada now has a phone app for this purpose, as they are trying to target the millennials. They also noted that those aged 55 and older would use technology if "it is enhancing the relationship and if it is enhancing what you are doing [as a financial advisor]."

Perhaps Robo-advising could be incorporated into a firm as a product offering for clients with less complex financial-planning issues, by offering a second tier of service to less profitable segments of the market, such as the children or grandchildren of clients with larger investment accounts (O'Hara, 2015; Fox Financial Planning Network, 2014). Going forward it will be important that organisations and advisors prepare for how they will manage Robo-advisors.

5.2.4.4 Customer Relationship Management (CRM*) Programme

Coltman (2007, p. 103) determined that CRM* technologies can improve performance in banking, by using it tactically and strategically. The tactical approaches focus on the automation of the sales force and client communications, whereas the strategic

approaches focus on a combination of human input, technical, and business-related activities, leading to higher order CRM* capabilities, which can provide an economic advantage to the organisation. Executive #2 noted the "critical foundation to embracing all of this entrepreneurialism is the sharing what we have talked about . . . requires that the organisation uses . . . a single platform [CRM* programme] where we can go out and take people's best ideas and build on them that is going to give us a tremendous advantage."

Therefore, the new CRM* programme could be used to address the complexity of the new financial regulations XYZ faces, by providing a means by which members of XYZ, separated by distance, can collaborate and share information. Kock & Nosek (2005, p. 1) mention how e-collaboration can improve both self-organisation and the co-evolutionary dynamics of an organisation, both of which are key to unfolding the future of a CAS. Using the CRM* programme could also be a way to harness the entrepreneurial spirit in XYZ. The executive team mentioned how the CRM*programme was not being used to this extent, as most advisors were not sharing their creativity and innovations with others in the organisation.

5.3 Summary

The new regulations (external issue) are causing internal issues for advisors concerning practice profitability and efficiency, and the value they offer clients for the fees charged, thereby impacting their ability to service ISIA. Fee transparency and the move to fee-based compensation (external issues) could result in downward pressure on advisor compensation, requiring advisors to limit their services to more affluent investors. The external stakeholders felt that ETFs (external issue) would increase in use as a strategy to service ISIA who are fee conscious. The advisors do not seem to be using ETFs for this strategy, as this was not mentioned during the interviews. I entered my doctorate thesis to obtain insights into how I could continue to service ISIA, and the information

on ETFs certainly provides a strategy. The advisors/executives did not feel a fiduciary standard (external issue) was needed noting how the current suitability standard suffices. The advisors and executives noted that strategically connecting to more affluent client's relatives could reduce the advice gap. The importance of client segmentation was discussed as a way to prepare for the intergenerational wealth transfer (internal issues) and for strategically preparing to service ISIA. The hiring of a junior advisor (internal issue) was one way to connect to the next generation of investors and for succession planning. Some advisors have responded to the complexity in the CFSI by working in a team-based practice (internal issue) as it provides complementary skills and can be used to serve a diverse client base. The executive team has been looking at advisor loans to assist with the cost of hiring a junior advisor in a team. The executives felt that XYZ could harness the entrepreneurial spirit of advisors to assist with providing a response to the new regulations and the importance of having one common CRM* programme for this purpose. The executives are also working on new technologies (e-docs, client portal, CRM* programme, Robo-advice) to improve advisor efficiency and to forge a relationship, and provide a digital experience to the millennials. Through the use of these technologies, advisors could experience increased capacity allowing them to service ISIA.

Chapter 6 provides the quantitative component of the mixed-method research, offering another opportunity to construct an understanding of the issues facing the advisors, stemming from the new regulations. The questionnaire plan is outlined, with reference to how the themes (financial regulations, advice gap, entrepreneurship, technology) from the interviews informed the development of the questionnaire, which was sent to the population of advisors in XYZ. Using a survey questionnaire was the most effective technique for obtaining more responses from the population of advisors, providing another layer of data for constructing an understanding of the issues and what is and is not working in an advisors practice, since the introduction of the new regulations.

Chapter 6

6 The Questionnaire

The survey questions were informed by the themes (regulatory changes, advice gap, entrepreneurship, technology) derived from the interviews, as the interviews provided the examination of higher level responses to the larger issues facing XYZ. The survey questionnaire was piloted and improved on through advisor and executive feedback, before it was distributed to the 704 financial advisors of XYZ, providing a participatory research modality. In total 84 questions were delivered, 54 multiple choice, 26 Likert scale, and two open-ended opinion questions. The Likert scale (Oppenheim, 1992, p. 200) questions allowed the themes and subthemes to be analysed using regression analysis, based on the age and tenure of the advisors, providing insights for the development of options to assist advisors with continuing to service ISIA. A number of tactics were used to improve the response rate. In total, 204 responded, with 188 completing the survey, resulting in a 26% response rate.

Section 6.1 the questionnaire plan, 6.2 themes examined, 6.3 survey question types, 6.4 improving response rate, and 6.5 summary.

6.1 The Questionnaire Plan

It was important that the information required in the survey questionnaire be properly identified, in addition to how the questions would be asked and later analysed (Harris, 2014, p. 36). Three colleagues and two executives of XYZ took part in a pilot. These individuals understood the research and were involved in my research process (Ekinci, 2015, p. 128). Their feedback provided insights for making questions clear and answerable, reducing potential survey bias (Harris, 2014, p. 33). Piloting served to

improve the reliability and validity of the data collected, while providing a gauge as to how long it would take to complete the survey (Ekinci, 2015, p. 127). One executive suggested the inclusion of more questions concerning the succession planning of advisors and whether the advisors intended to purchase a book-of-business in the future. They also suggested additional questions be included in the survey about an advisor's involvement with some of the services offered by XYZ. They felt these questions could provide some direction as to how advisors may structure their practices going forward. These questions will also provide valuable insights to assist XYZ with providing advisor practice-level support. They also suggested that the definition of a team-based practice (two or more advisors dealing with a client; an advisor and administrative team are not considered a team for this research) be included to provide context of this term, as it relates to the research. The executives had privileged knowledge of the assets under administration (AUA) for the advisors and suggested that the AUA increments used in the multiple-choice questions be amended to reflect a better increment spread. They felt this change would provide the research with more valuable data for analysis. The advisors involved in the pilot were able to assist with rewording questions that were unclear or could not be answered based on the responses provided. Without such a participatory research modality for the development of the survey, these questions would have never been updated, resulting in less valuable data for analysis. From the pilot additional questions were introduced, some of which required question-skip patterns, which direct respondents to questions and not others depending on their response to a previous question. The feedback concerning the rewording of questions would assist with advisor confusion in answering the survey and would reduce the drop-out rate of respondents. The survey was then piloted once more internally with the same individuals, ensuring that all their suggestions were addressed in the updated version of the survey and that no remaining issues remained.

The survey was sent by e-mail to the advisors by XYZ's three RVPs. The body of the e-mail included a letter from the President, introducing me as the researcher and stressing the importance of the research (Yeomans, 2015e); included was an embedded link to the survey (Yeomans, 2015f). The survey questionnaire allowed the respondent to answer

the questionnaire once from the same computer or mobile device, reducing the chances of duplicate advisor responses. Respondents were also required to respond to each question; this was done to eliminate the possibility of skipped questions. It should be noted that requiring questions to be answered could lead to a higher respondent drop-out rate (Bothwell, 2009). Of the 704 advisor survey questionnaires sent, 204 responded, while 185 were completed, representing a response rate of 26% and a drop-out rate of 9%.

6.2 Themes Examined

From the interviews, the following themes were identified: financial regulations (Section 5.5.1), advice gap (Section 5.5.2), entrepreneurship (Section 5.5.3), and technology (Section 5.5.4), as well as subthemes for each. The themes and subthemes allowed me to examine some of the external, internal, and the intersection of external/internal issues stemming from the regulations, to address the research topic in a practical way. The survey questionnaire will allow the themes identified to be further examined providing data for quantitative analysis.

For '*financial regulations*', the subthemes of fee transparency, fee-based compensation, exchanged-traded funds, and fiduciary duty were identified. These four subthemes are either part of the regulations or will be influenced by the regulations going forward. The subthemes for '*advice gap*' were client segmentation, intergeneration wealth transfer, succession planning, and team-based practices. These subthemes were important to derive an understanding of whether advisors have started to shed ISIA from their practices, or whether they were trying to find ways to service these accounts. For the theme of *entrepreneurship*, it was important to determine whether the organisation had an environment in which advisors could collaborate and whether advisors would welcome the opportunity to work together in the future. Finally, the theme of *technology* had the subthemes of e-docs, client portal, Robo-advisors, and the organisation's Client

Relationship Management (CRM*) programme. These themes allowed the research to determine what technology is required and viewed as important by advisors. It was evident that the advisors interviewed had a limited understanding of what a Robo-advisor was. Therefore, the questionnaire was able to present some of the components of a Robo-advisor to determine whether advisors had interest in them.

6.3. Survey Question Types

In total 82 questions were delivered to the survey respondents: 54 multiple choice questions, 26 opinion questions using a Likert scale, and two open-ended response questions. The questionnaire grouped the multiple choice questions by common topics. The first set of questions gathered demographic and advisory practice information on the respondent. It was important to start with easy questions, as difficult questions at the outset could increase the drop-out rate of those surveyed (Harris, 2014, p. 47). The remaining multiple choice questions were organised in categories of information required from the respondents. These related to questions concerning financial regulations, entrepreneurship, and the use of technology. Question-skip patterns were used to gather information that pertained only to certain respondents, providing a flow to the questionnaire and providing higher-order responses. Keeping skip-pattern questions to a minimum was important as too many of these can confuse respondents leading to bias, reducing both the “reliability and validity of the data” (Ekinci, 2015, p. 110).

The themes and subthemes were also addressed through statements posed to the respondent, requiring them to rate their responses on a 5-point Likert scale ranging from (1) strongly disagree to (5) strongly agree. Using a Likert scale can provide more reliability to the data than using a Thurstone scale, given the range of answers provided by the Likert scale (Oppenheim, 1992, p. 200). However, there are some weaknesses to the use of a Likert scale, such as, the lack of reproducibility of the research and the difficulty in demonstrating validity if what is measured is not what is needed by the

research (Bertram, 2009, p. 7). These weaknesses have been minimised as the purpose is to understand the advisors of XYZ. The validity of the questions has been improved by the salient themes derived from the interviews, which provided a guide to measuring what was required.

Two open-ended response questions were included, as it was not possible to list all of the potential response choices. For example, question 53 asked, why are you not using the organisation's Nominee Account Platform? The use of open-ended responses provided the respondent with freedom to answer the question, which can capture their ideas and language (Oppenheim, 1992, pp. 112–113). The paid subscription of SurveyMonkey allowed for a text analysis of the language used by the respondents.

6.4 Improving Response Rate

Having the survey sent by XYZ's RVPs with the letter of introduction by the President, provided credibility to the research. The President's introduction mentioned that respondents could request a copy of the research results at the end of the survey. Providing the research results gave respondents an incentive to complete the survey, potentially improving the response rate (Ekinci, 2015, p. 151). The RVPs sent a reminder e-mail to the advisors two weeks later reminding them to complete the survey. One day after and a week after the survey was sent by e-mail, I posted a reminder on XYZ's CRM* programme, resulting in an increase of responses shortly after each post.

At the end of the survey, advisors were asked to provide their contact information, as I mentioned how I would like to discuss responses to the questionnaire with some of them. Starting in the first week of the survey I began contacting advisors by phone; in total 104 advisors provided their contact information, and 58 were contacted. Contacting advisors allowed me to conduct member checking (Harvey, 2015). In closing, I kindly

asked them to encourage their colleagues to complete the survey. After these conversations, I would witness an increase in responses.

6.5 Summary

The data collected from the interviews provided me with the opportunity to challenge my understanding of the issues and in particular, how advisors can continue to service ISIA, given the volatility in advisor's planned strategies for growth. It also provided an opportunity to develop understanding of what is and is not working in an advisor practice. Chapter 6 provided another opportunity to gather data concerning the interview themes of financial regulations, advice gap, entrepreneurship, and technology, in addition to subthemes for each, providing valuable data for developing the options to assist advisors with servicing ISIA. The response rate was improved using a number of tactics. In total 188 responses were received, representing a response rate of 26%.

Chapter 7 provides the quantitative analysis of the survey responses and whether the sample was a good representation of the population based on location, age, and gender, using a chi-square goodness-of-fit test. Data gathered from the interviews and questionnaire also allowed for the triangulation of the research findings and strengthened the development of the options to assist advisors with efficiently and effectively servicing ISIA.

Chapter 7

7 Analysis and Results of Questionnaire

An analysis of the quantitative data resulted in the development of options to improve the efficiency and effectiveness of XYZ advisors in servicing ISIA. The themes and subthemes from the interviews are examined in this chapter with reference to the questions from the survey that pertain to each. For financial regulations, the subthemes are fee-transparency, fee-based compensation, ETFs, and fiduciary duty. The advice gap had subthemes of client segmentation, intergenerational wealth, succession planning, and team-based practices. Entrepreneurship had the subtheme of creating an organisation conducive to collaboration, while, technology had the subthemes of E-docs, client portal, Robo-advisors, and CRM* programme. Regression analysis on the Likert scales questions was conducted based on the age and tenure of the advisors, providing insights into the development of options advisors could use to assist with continuing to service ISIA.

Section 7.1 provides the quantitative analysis of the responses; 7.2 presents the advisor options for reducing the advice gap.

7.1 Quantitative Analysis of Responses

First, it was necessary to check whether there was sufficiently strong evidence to reject the sample (n = 188) as a good representation of the population (N = 704). The sample was checked against the population for geographic location, age distribution, and gender. Applying a chi-square goodness-of-fit test returned the following results (Appendix B.1):

Attribute	χ^2-value	df	p-value
Location	8.5596	6	0.1999
Age	0.6784	4	0.9540
Gender	0.9585	1	0.3276

A z-score test using proportion was used for gender yielding a p-value = 0.3000 (Appendix B.2).

With a significance level as high as 15% there was not sufficiently strong evidence to reject that the sample was a good representation of the population so far as location, age, and gender are concerned. The relatively low p-value for location is due to a low number of respondents from Quebec. Appendix B.4 provides the results from the regression analysis conducted on the Likert scale questions based on the advisor's age. This analysis will assist in strengthening the research findings and the options presented to the advisors based on their age.

7.2 Options

The development of these options stems from the information gathered through the interviews and the questionnaire. The interviews assisted with the development of the themes and subthemes for the questionnaire and are presented in the following table with the survey questions (Yeomans, 2015f) pertaining to each:

Major Themes	Financial Regulations	Advice Gap	Entrepreneurship	Technology
Subthemes	**Fee Transparency** (25,54,63,64)	**Client Segmentation** (27, 28, 33, 56, 57, 61, 62, 68, 81)	**Creating an Organisation conducive to Collaboration** (30, 31, 32, 40, 41, 42, 84)	**E-docs** (74)
	Fee-based Compensation (54, 55, 66, 67, 68, 69)	**Intergenerational Wealth** (83, 87)		**Client Portal** (73)
	Exchange-traded Funds (69)	**Succession Planning** (36, 37, 43, 44, 47)		**Robo-advisors** (34, 35, 76, 73, 74, 75, 76, 77, 86)
	Fiduciary Duty (70,71)	**Team-based Practices** (47, 48, 49, 50, 51, 78, 79)		**Customer Relationship Management (CRM*) Programme** (29,31,32,72)

Table 7-1 - Survey Questions pertaining to the Themes

The questionnaire provided general demographic and practice-specific information, which will assist advisors with selecting the options based on their age and tenure. The ability for an advisor to implement all of these options would require a time and dollar commitment. Based on the responses, further analysis was conducted on the themes and subthemes, indicating areas of significance. From these responses, it was apparent what advisors required to service ISIA. The theme of financial regulations crosses all themes and was not addressed in isolation. The rationale for the options determined follows.

7.2.1 Working as Part of a Team-based Practice

Executive #3 noted the advantages of working in a team-based practice with advisors providing complementary skills sets to the team and assisting with developing a relationship with the next generation of investors. From the survey 48% (90) work as part of a team-based practice (Q47), defined for this research as two or more advisors dealing with a client.

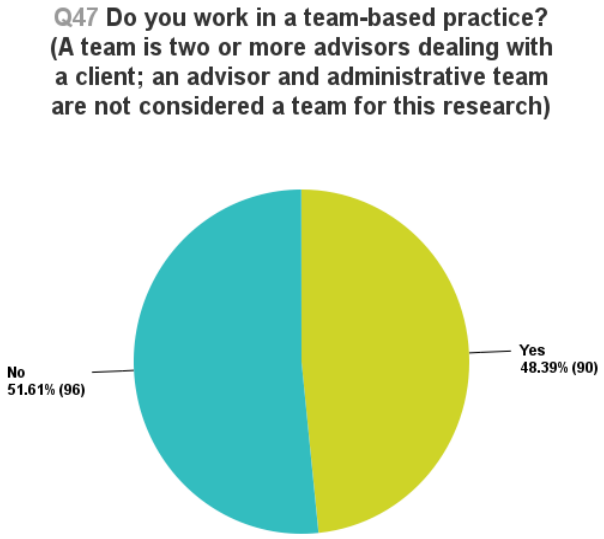

Figure 7.1 – Team-based Practice

Working as part of a team-based practice can assist with practice efficiency and growth. PriceMetrix (2015) provided a report that measured aggregate data for the North American wealth management industry providing insights concerning the benefits of team-based practices. They mention that teams have more AUA, are more productive (measured by the number of households serviced), and grow faster than a sole advisor. The clients of teams also have more assets invested and remain with the team longer than those working with a sole advisor, resulting from the deeper and longer lasting relationship teams create with their clients. Teams also tend to have fewer households under $250,000 of investable assets, which suggests they are more strategic in who they accept as clients. Vanguard Investments Canada Inc. (2014) had the Spectrum Group conduct a survey of consumers in the financial service industry in the US, from the fourth quarter 2013 to the third quarter ending in 2014. They determined that of the 1000 millionaires and 1500 mass affluent individuals (those with more than $100,000 and less than $1 million of investable assets) surveyed, 55% and 39% respectively plan to introduce their children and grandchildren to their advisor. Therefore, working as a team could present a way to prepare for dealing with these potential heirs as they could presumably be ISIA now, but large accounts in the future through personal

accumulation or inheritance. The questionnaire provided insights concerning those in XYZ that are part of a team-based practice, offering those considering the move to a team-based practice with valuable information to assist them with their decision.

From the survey 77% (143) agree or strongly agree that being part of a team-based practice is important for improving practice efficiency and growth (Q79). 59% (53) who are part of a team-based practice attribute their growth over the last two years to portfolio construction solutions, 63% (57) to market returns, 38% (34) to centers of influence, and 29% (26) to a new hire to their team (Q49). Team-based practices are one option for addressing the complexity of needs for a family through various specialised advisors, while maintaining a connection to the next generation of clients, thereby reducing the advice gap in the organisation.

7.2.2 Hiring a Junior Advisor

The topic of hiring a junior advisor came up in the advisor and executive interviews as a way to address many of the internal issues facing an advisor's practice, such as succession planning, the intergenerational wealth transfer, and for continuing to deal with ISIA. Numerous questions were provided on these internal issues, which were analysed based on the tenure and age of the advisors, which are strongly positively correlated (0.9993) (Appendix B.3). Executive #3 noted that clients tend to deal with advisors of like age, and how someone in their 30s may not want to deal with a more senior advisor. From the survey results the average age of advisors in XYZ is 57 years of age (Q8). Interestingly, the average age of advisors corresponds to the survey results concerning the average age of advisor's clients, which is 59 years of age (Q19). The following chart compares the age of the advisor (Q8) (horizontal axis) with the average age of the clients they service (Q19). From this, we can see the similarity in age between

advisors and clients.

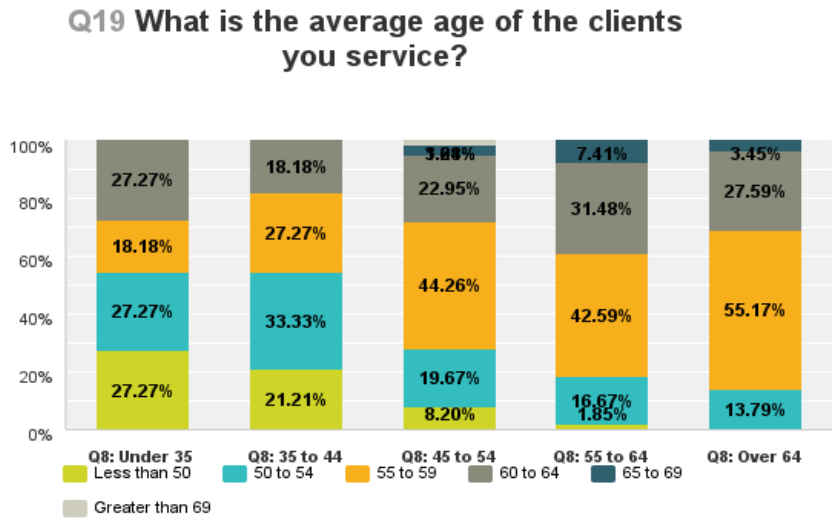

Figure 7.2 - Average Age of Clients

Hiring a junior advisor who is younger can create a relationship with the next generation of investors, creating generational continuity within a financial advisor's practice. Hopkins (2012) mentions how one member of Freedom 55, a firm in the CFSI, disclosed that 43% of investors choose their financial advisor before the age of 35, which suggests that younger advisors would be well positioned to service younger investors, as they will speak the same language culturally and technically.

According to the survey, 36% (68) employ a junior advisor (Q36). When filtering these responses by the age of advisors over 55 years of age, the response rate dropped to 14%. It is advised that more senior advisors consider employing a junior advisor. Investor Economics (2015, p. 17–18) notes that the millennials in Canadians, those born in the early to mid-80s, are expected to control 14% ($890 billion dollars) of the Canadian wealth in 2025. This statistic coupled with the data provided by Investor Economics, in their 2014 household balance sheet report (Appendix A), details that the affluent market, households with over one million dollars of investable assets, represents only 4.28% of Canadian households. One can infer from this data that these households are presumably older investors who have accumulated wealth throughout their lifetime. Therefore,

having a connection to the next generation of investors will be necessary for the strategic longevity of an advisory practice, especially for the independent advisor channel. In a conversation with a member of Investor Economics, they believed that the Canadian retail banks would pick up the ISIA as they have the scale and technology to do so. However, independent advisors who embrace this market can capitalise on the long-term growth of this market segment, perhaps providing a more holistic approach to this market segment than a Canadian retail bank's advisor channel can. TD bank, a Canadian retail bank, disclosed to the market how they would be strategically expanding their wealth management division by hiring 400 financial planners and advisors by 2018, to capture more of the mass affluent (>$100,000 to $1 million in investable asset) and high-net-worth (> $1 million in investable assets) market segments (Mezzetta, 2016). Clearly, TD bank is trying to capture some of those clients with less than $150,000 of investable assets, therefore helping to bridge the advice gap.

A junior advisor can also develop the skills required to succeed in the business while providing the senior advisor with a successor for their practice. Having a junior advisor in an advisory practice, for this reason, was confirmed by four of the advisors interviewed, who operate in a team-based practice with a junior. From the survey, 11 advisors were less than 35 years of age and only 8 were part of a team-based practice, while 18 of the 33 advisors between the ages of 35 and 45 were part of a team-based practice. Finally, only 10 of the 28 advisors over 64 were part of a team (Q8 & Q47). These findings are insightful for those interested in hiring a junior advisor and should indicate the need for a junior advisor for those over 64 years of age, as they may benefit by having a junior advisor to connect to the next generation and for succession planning purposes.

From the survey, only 39% (73) had a documented succession plan (Q43). When looking at only those respondents over 55 years of age, only 54% of these advisors had a documented succession plan. Of the 61% (113) who did not have a documented succession plan, 49 advisors plan to document a succession plan for their business in the next 12 months (Q44). This data offers insight into XYZ's preparedness with

transitioning practices to the next generation of advisors, providing support for the team-based practice option.

During the executive interviews, it was evident that the executive team has been trying to reduce the average age of advisors in XYZ. One way they seek to do this is by providing loans to advisors so they can pay the salary of a junior advisor, which may not require repayment if the advisor's practice meets predetermined revenue targets. They have even looked at providing advisors, who are seeking to hire a junior advisor, access to the advisors working in the National Accounts Team (NAT). Hiring a junior advisor from the NAT would reduce some of the hiring risks, as these advisors will have acquired valuable skills in the business before being hired. From the advisor interviews, it was evident that they fear the new regulations may result in lower compensation, which has caused some to defer hiring a junior advisor. The advisors interviewed who have hired junior associates, have hired their children, which could introduce nepotism in the industry.

7.2.3 Using the Services of a Robo-Advisor

The Robo-advisor option derived from the misunderstanding among advisors both in the interviews and the questionnaire responses about what a Robo-advisor was. During the interviews with the executives, they mentioned how XYZ has been working on how Robo-advising may be offered as a service going forward. The use of a Robo-advisor would improve an advisor's efficiency through automated elements of basic investment advising: automated portfolio construction and management, account aggregation, risk assessment, tax optimisation, rebalancing, and reporting (Wessel, 2015; O'Brien, 2015). Using a Robo-advisor would allow advisors to conduct business with a larger number of clients, most likely ISIA, reducing the advice gap.

Technology has been slow to gain traction in the financial services industry (Jain & Rocha, 2012) until now. Technology was introduced in the manufacturing industry during the 1980s through just-in-time inventory and to the marketing sector during the 1990s; now it appears that those who sell products and services to clients are facing a technological revolution (Sullivan & Lazenby, 2005, p.89). Robo-advisors are considered a disruptive technology (FinaMetrica, 2015). Deborah Fox, from Fox Financial, notes that Robo-advisors are a revolutionary technology that will change how financial service firms operate on a day-to-day basis (FFPN, 2016). Robo-advisors also offer a lower cost model than those provided by traditional financial advisors (FFPN, 2014). It was evident from the survey that advisors did not want XYZ to develop a Robo-advising platform; 70% (130) were either undecided to strongly disagree to the organisation developing a Robo-advisor (Q76).

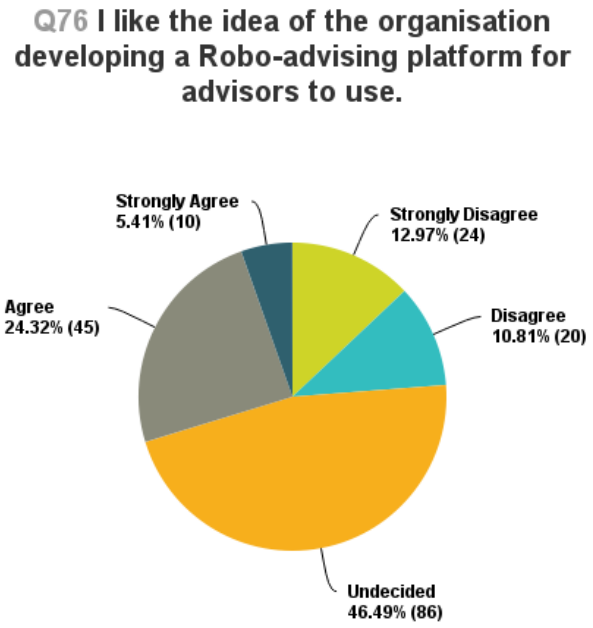

Figure 7.3 – Robo-advising Platform

From the survey, 78% (148) were familiar with what a Robo-advisor was (Q34), and 88% (166) did not feel threatened by this new technology (Q35). These responses differed from those obtained from the in-depth advisor interviews, in which there was a sense that advisors felt threatened by the entrance of Robo-advisors in Canada. They

also did not understand the components of a Robo-advisor or the compensation it would provide their practice. The traditional understanding of a Robo-advisor is that it is an internet platform designed to avoid the need for a relationship with a human advisor (Fein, 2015). FFPN (2016, pp. 7–8) released a white paper on how organisations can use Robo-technology for additional profit. They provide the different varieties of Robo-advisors and suggest three models for incorporating Robo-advice technology into an advisor's practice: to improve an advisor's engagement with clients and prospects, make them more efficient, and to differentiate the advisor's practice from the pure Robo-advice platform.

Many opinion questions were included in the survey to ask advisors their views on some of the components of a Robo-advisor. Not including the term Robo-advisor in these questions made these questions blind to a connection to Robo-technology. For example, when asked whether they would use electronic forms to assist with both opening and servicing accounts, 83% (155) either agreed or strongly agreed (Q74).

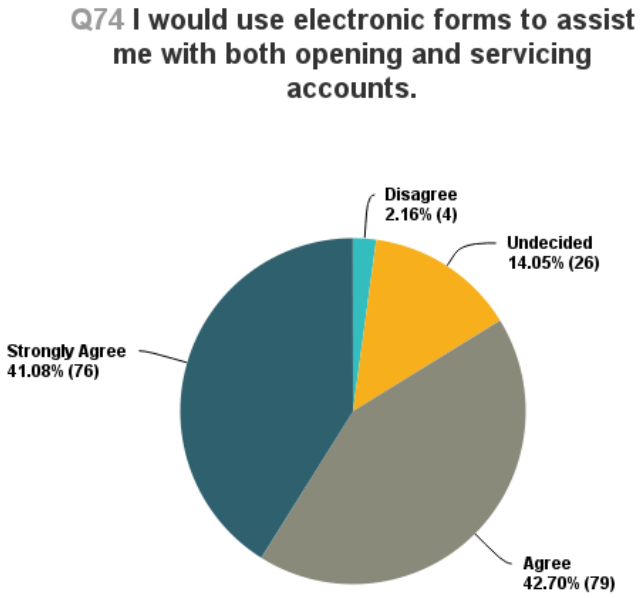

Figure 7.4 - Electronic Forms

The responses to this question showed an inverse (negative) linear relationship of level of agreement with age; the Null Hypothesis: $\beta = 0$ was rejected in favour of $\beta < 0$, where β is the slope of the regression line, at the 5% significance level (Appendix B.4).

Electronic forms are the onboarding component of Robo technology and if embraced by advisors can improve practice efficiency (FFPN, 2014), by improving the 'know your client' component of the relationship through online forms to update a client's investor profile when material changes occur. In late 2015, XYZ launched a beta version of e-docs, which requires a computer or electronic device to display, interpret, and process paperwork (BusinessDictionary.com, 2016), between the advisor and client.
When asked if they would use a programme that created a portfolio based on their client's responses to an Investment Policy Questionnaire (IPQ), 77% (142) responded with agree or strongly agree (Q75).

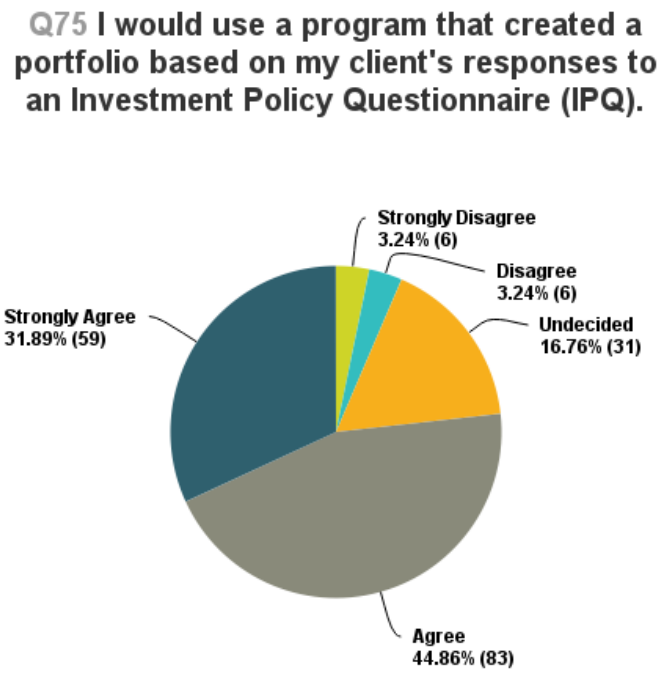

Figure 7.5 - Portfolio Creation based on IPQ

Using an IPQ would be the same as the portfolio construction process for a Robo-technology platform. Using this service would free advisors' time in constructing

portfolios, allowing them to concentrate on higher level client needs, such as complex estate and tax issues, thereby adding value and differentiating themselves from a pure Robo-advisor.

When asked whether asset allocation was a key value-added service they provide their clients, on their own or through the services provided by other investment companies, 78% (144) agreed or strongly agreed (Q77) with the statement.

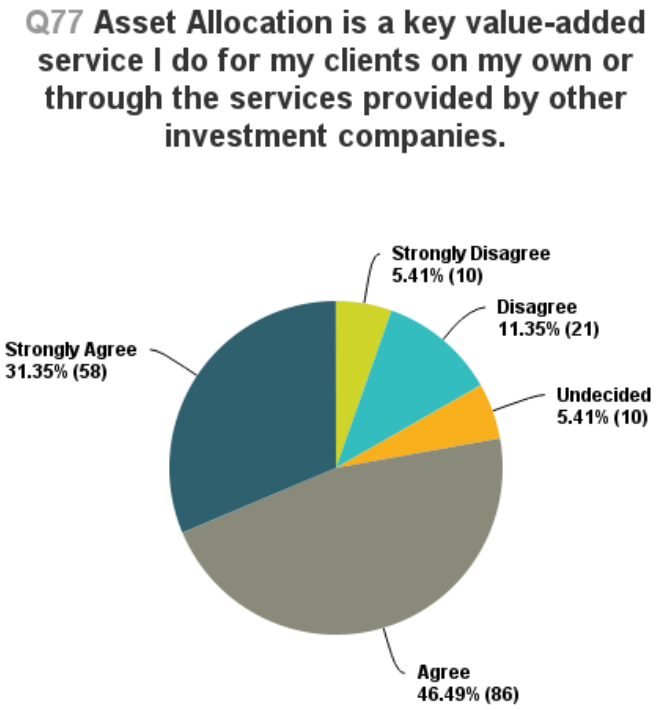

Figure 7.6 - Asset Allocation Services

This data presented a compelling argument for embracing Robo-technology in an advisor's practice, since portfolio asset allocation, rebalancing, and tax harvesting are services provided by Robo-technology (Wessel, 2015).

Finally, when asked whether they would like XYZ to create simple financial education videos to assist with developing a relationship with the next generation of investors, 66% (122) agreed or strongly agreed (Q86).

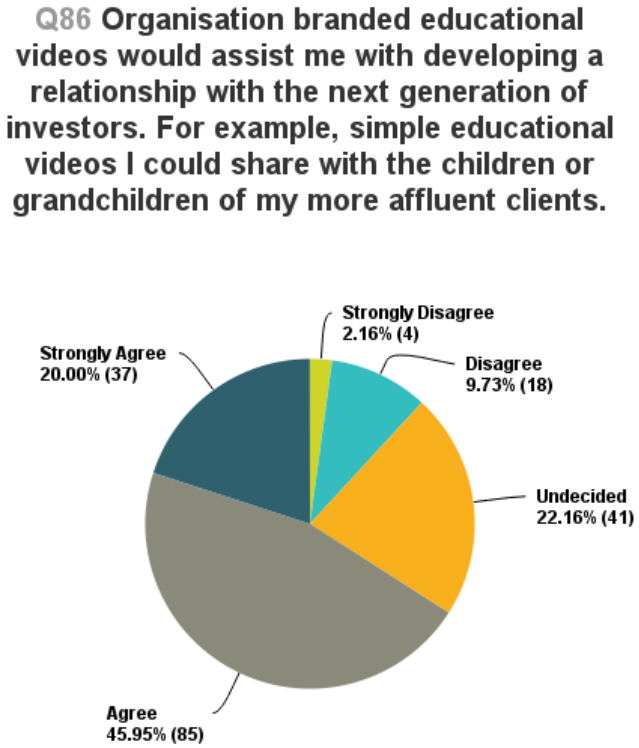

Figure 7.7 - Educational Videos

When analysed at the 5% significance level, we can reject the Null Hypothesis: $\beta = 0$ in favour of $\beta < 0$, where β is the slope of the regression line, concluding that there was an inverse (negative) linear relationship between age and the level of agreement. The results of this analysis was interesting, as I figured senior advisors would be more interested than younger advisors in educating the next generation of investors, given that many have an older and more affluent client base (Appendix B.4). These videos would assist with addressing the lower level needs of clients or prospective clients by providing them with information when they want it. It would also free advisor time improving efficiency, allowing them to service higher level client needs. During the interviews, Advisor #7 mentioned that they felt that ISIA needed "tax advice, you encourage them to save, you encourage them to find ways to pay off their debts and

make sure they are properly taken care of, and taking care of those general risks that are built into building equity over time." Using technology could serve many of the needs mentioned by this advisor. For example, using technology to track the client's progress and send them a reminder or congratulations when achieving a financial milestone. Using technology for this purpose would not stop the advisor from making contact with the client; instead, it would provide continuous automated communication to the client, another component of Robo-technology.

For the question, regarding whether advisors felt that the new client portal introduced by XYZ would be an effective tool for connecting with their clients in a secure way, 62% (116) agree or strongly agree (Q73).

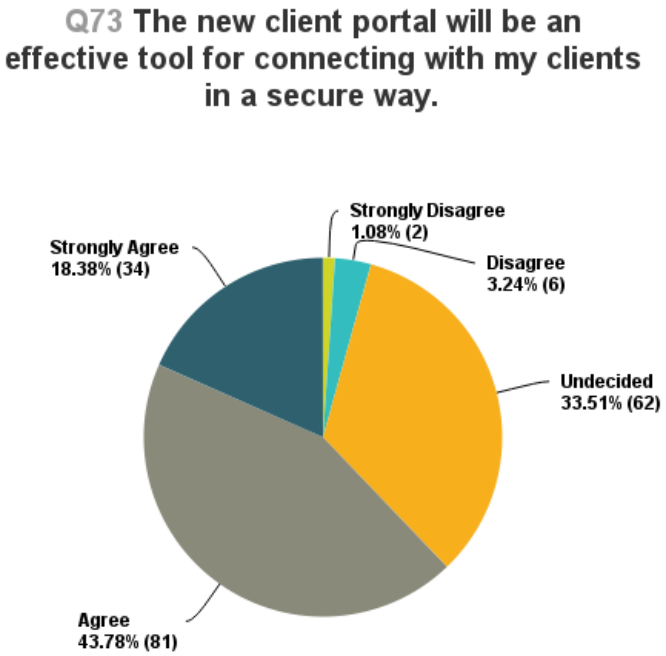

Figure 7.8 - Client Portal

For this question, there was sufficiently strong evidence in favour of the Alternative Hypothesis: $\beta > 0$, that is, that with age the level of agreement increases. This analysis was thought-provoking, as some may assume that senior advisors are not embracing the use of technology given their age and comfort with it. It should be noted that the client

portal is available to the client 24/7 (FFPN, 2016, p. 7). It could also be used by the client to track their portfolio performance, retirement goals and objective while serving as a secure place for an organisation to share educational videos and supportive information which can be viewed by a client or shared by the client to their children and grandchildren.

Robo-advising is not a single product like a CRM* programme or financial-planning programme. Instead, it provides a combination of web-based technologies designed to streamline and simplify client interactions, either through a direct to customer model or through a human advisor interaction (FFPN, 2016, p. 7). Sullivan & Lazenby (2005, p. 154) discuss four possible tech-human scenarios for financial services providers, and how they match up to the type of problems and roles played by the client and advisor. First, the do-it-yourself client, who uses technology and no assistance from an advisor - used for simple problems. Second, the consultant model, in which the advisor uses technology for the client - used for complicated problems. Third, the counsellor model, in this scenario the advisor works with the clients without the use of technology - used for complex problems. Finally, the collaborator model would involve the advisor and client using technology together to solve hyper-complex problems. Therefore, simple and complicated problems can be replaced by technology, whereas complex and hyper-complex problems will require a client to interact with a human advisor. From these scenarios, opportunities exist for embracing Robo-technologies for simple and complicated problems. Understanding the use of Robo-technologies could assist with addressing other subthemes, such as client segmentation and intergenerational wealth planning, allowing the advisor to tier services based on a client’s needs, thereby reducing the advice gap.

7.2.4 Using Asset Allocation Tools

Although asset allocation and rebalancing is a component of a Robo-advisor, it is worth noting as an option on its own. Patented in 2003, asset allocation and rebalancing through computer implementation was cited as a way to customise the process of providing allocation models by advisors for their clients, assisting them with providing advice to a broad range of individual investors, than, they may otherwise have been able to service (Langenwalter, 2005). Some advisors may choose the asset-allocation services provided by third parties, whereby the asset allocations are established and reallocated without advisor and client involvement. During my interview with the internal business consultant, who specialises in coaching financial advisors with practice excellence, they were quoted saying:

> *I think this whole trend towards minimum account sizes and trying to focus on the higher net worth clients may, in fact, be passé to a certain extent. . . I think we are going to go through a tremendous margin squeeze, as products shift, for example from mutual funds to ETFs and the like, and as consumers become more discerning about fees . . . I think that lower cost is going to be achieved through technology more than anything.*

The other external stakeholder, who was a member of the ETF association in Canada, noted that many IIROC licensed advisors are not using ETFs as they only make sense in a fee-based account. They also noted that advisors choosing to use fee-based accounts will see their product universe expand to include ETFs and other mutual fund products that do not currently pay embedded fees (trailing commissions). Having an expanded product list will make it difficult for advisors to provide asset allocation as they could be dealing with numerous investment providers. Therefore, having asset-allocation tools would provide the technology to build and monitor portfolios. Without the proper tools, the ability to prepare and track client asset allocations can become daunting and near impossible to do properly. One example of such a tool is the investment management

solution offered by Charles River, which is an investment management programme that interfaces with back-office client data, allowing advisors to build model portfolios based on asset-allocation and provides monitoring features for rebalancing purposes (Charles River, 2016).

From the advisor interviews, the consensus was that the portfolio was not the most valuable service they offer their clients. Advisors noted how behavioural coaching and the education of clients have become more important. One reason for these responses is due in part to their use of asset-allocation programmes, whereby the portfolio is constructed and reallocated by an outside party. The survey responses differed as 89% (164) agreed or strongly agreed that the portfolio is an important component of their relationship with their clients (Q65).

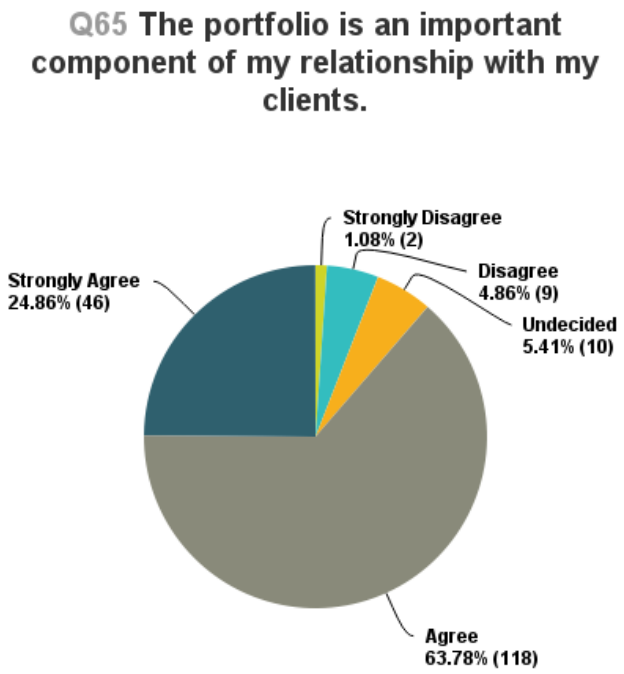

Figure 7.9 – Importance of Portfolio for Advisors

Additional tools that would assist an advisor in developing and maintaining appropriate portfolios for their clients would be a value-added service. 78% (144) of respondents agree or strongly agree that asset allocation was a key value-added service they provide

their clients, on their own or through the services provided by other investment companies (Q77). The use of an asset-allocation service would improve practice efficiency, which could free up time to deal with ISIA, reducing the advice gap.

7.2.5 Making Use of the National Accounts Team (NAT)

XYZ has a NAT which traditionally deals with investor accounts that advisors have shed from their practice, due to lack of investor engagement or accounts too small for the advisors to service profitably. During the interviews the executives discussed how they are trying to improve the quality of the NAT advisors. The survey provided insights from advisors concerning the current NAT structure and potential improvements. It was determined from the survey that the average account size being turned down by advisors in XYZ was $184,500 (Q62).

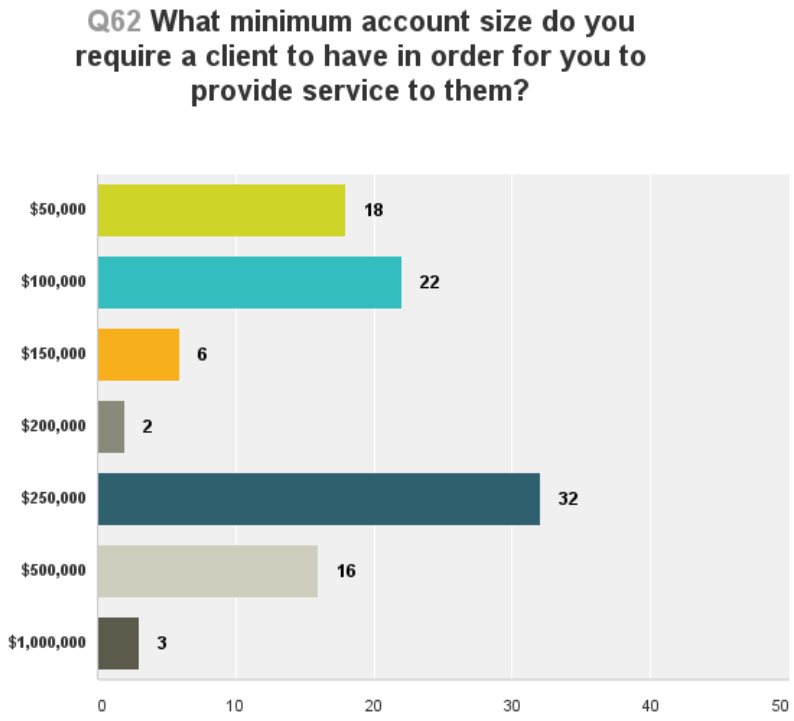

Figure 7.10 - Minimum Account Size required by Advisor

Having this minimum account size could assist XYZ with promoting the use of the NAT by advisors. The minimum account size required by the advisors of XYZ was lower than the findings presented by Clare et al. (2013) after similar fee transparency regulations in the UK, whereby advisors in the UK were choosing to deal with client with more than £150,000 to invest. The conversion rate of the Pound Sterling to Canadian dollars at the time (January 14, 2016) of distributing the survey to advisors was 1.89 (Fx-rate, 2016). Upon conversion, this would equate to £150,000 being equal to $283,500. Therefore, the average size of accounts being turned down in XYZ was $184,500 (Q86), substantially lower than the UK research.

From the survey, 65% (121) agree or strongly agree that the new transparency regulations would make it difficult for those investors with less than $150,000 of investable assets to gain access to the financial advice they offer (Q80).

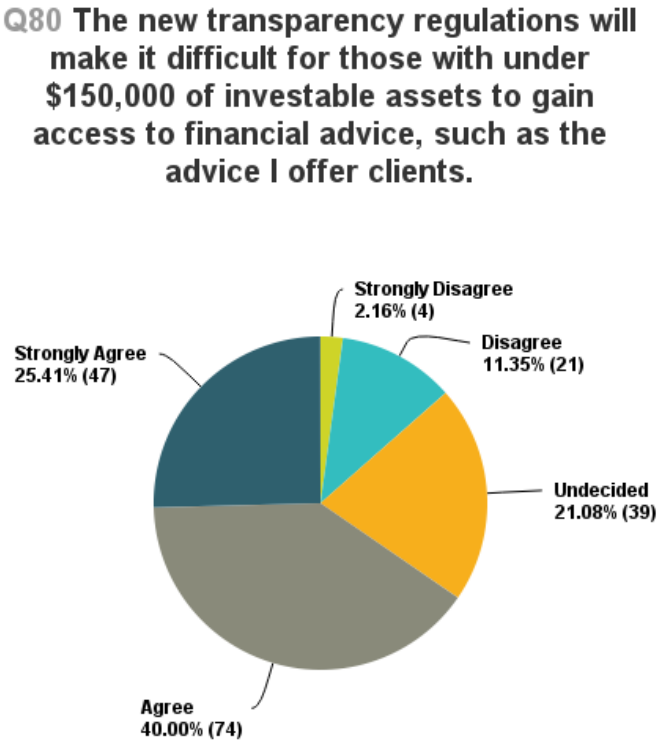

Figure 7.11 – Impact of Transparency Regulations

This data should cause concern, given the intergenerational wealth transfer that will occur in Canada from the Baby-boomers to the millennials, who are expected to control 14% ($890 billion dollars) of the Canadian wealth by 2025 (Investor Economics, 2015, p. 17–18). Advisors must also be aware that in 2010 one-fifth of Canada's population was over 60 years of age, but by 2025 this number will reach one-third (Canadian Chamber of Commerce, 2010). Accenture (2012) provided research that examined the intergenerational wealth transfer in the US, noting that most US wealth management firms were unprepared, as they are struggling with the attrition of assets from clients passing away and have not developed a value proposition to connect to the next generation (inheritors) of investors. Noted during the external stakeholder interviews was the fact that some firms are partnering with Robo-advisors, whereby clients who do not have the minimum account threshold would be assigned by the advisor to the Robo-advisor and returned to the advisor when the account has reached the advisor's required threshold. Instead, advisors in XYZ could be referred these accounts to the NAT, where a real human advisor would provide advice. Advisors who use the NAT can provide a value proposition that is relevant to the next generation (small investment accounts now), thereby reducing the advice gap and positioning them for the intergenerational wealth transfer before it begins.

From the survey, 71% (134) of the advisors service less than 299 households personally (Q17), while the average AUA by an advisor, personally, was $94.59 million (Q18). These numbers equate to an average client account size of approximately $316,354. For the advisors, it will be important to find ways to ensure that ISIA still maintain a relationship with XYZ, so that investors do not end up dealing with a competitor, or become a casualty of the advice gap.

When asked whether they would consider transferring or selling some of their small investment accounts to the NAT, only 58% (109) said they would (Q28). Presently the NAT is located in Toronto, Ontario. When asked if they would consider transferring or selling ISIA to the NAT if there was a NAT in each province; 44% (81) said this would influence their decision to transfer to the team (Q81). This figure was significant, given

that 52% (98) of the respondents were from Ontario (Q9), where the NAT presently resides. From the analysis of Question 81, we can reject, at the 5% significance level, the Null Hypothesis: $\beta = 0$, where β is the slope of the regression line, in favour of $\beta < 0$, concluding that there is an inverse (negative) linear relationship between the level of agreement and age for this question (Appendix B.4). Perhaps, XYZ could further the development of the NAT's presence across the country. Doing so would allow XYZ to maintain a relationship with these ISIA, reducing the advice gap in the organisation.

7.2.6 Collaborating with other Advisors in the Organisation

Collaborating with other advisors in XYZ was included as an option as it provides a way to harness intrapreneurship (Cunningham & Lischeron, 1991) in the organisation to assist with addressing the present and future challenges faced by advisors and XYZ. From the advisor and executive interviews 90% (9) and 100% respectively, felt the advisors in XYZ were entrepreneurs. From the survey, 94% (177) consider themselves entrepreneurs (Q30).

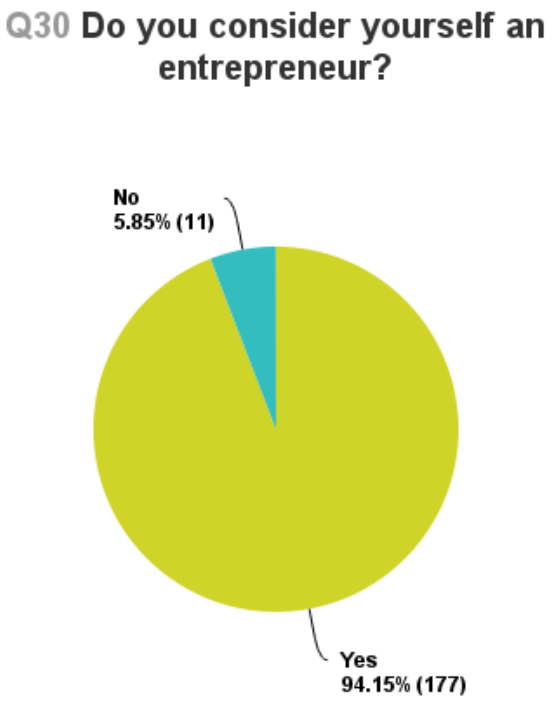

Figure 7.12 - Entrepreneurship

With XYZ considered a Complex Adaptive System (CAS) (Stacey, 2011, p. 236), the process of entrepreneurship should be exploited whereby individuals or groups of individuals in conjunction XYZ initiate renewal or innovation, or create a new organisation altogether (Sharma & Chrisman, 1999, p. 18). This approach would assist with developing strategies collectively for addressing the new regulations and for reducing the advice gap.

The intrapreneurial school of thought for understanding the entrepreneurial process is appropriate for XYZ to consider as it involves using the entrepreneurial skills available in a complex organisation to create, market, and expand services (Cunningham & Lischeron, 1991). From the survey only 58% (109) shared their best practices and procedures with the organisation (Q31).

Figure 7.13 - Sharing of best Practice and Procedures

It is noted that the XYZ created a programme based on the best practices and procedures that were shared by one of XYZ's advisors. However, only 53% (99) have taken part in this programme (Q40), of these 80% (78) have found the programme to be effective in helping them grow their business (Q41). This information confirms the importance of sharing and collaborating with others. Perhaps the low enrollment is due to the time commitment or the cost associated with enrolling in the programme ($1000).

XYZ has a Customer Relationship Management (CRM*) programme, which could be used to facilitate the entrepreneurial process. When asked whether they have collaborated or shared information with other advisors using XYZ's CRM* programme, 32% (61) responded that they had (Q29).

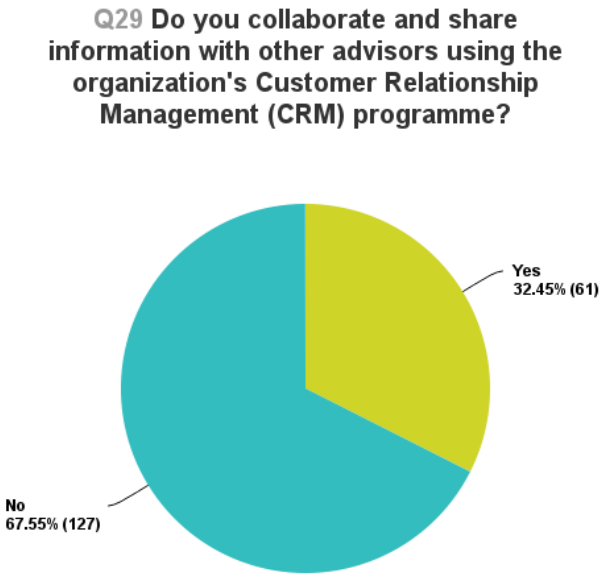

Figure 7.14 – Advisor Collaboration using Organisation's CRM Programme*

Perhaps advisors and XYZ could find effective ways to use the CRM* programme to collaborate more. In doing so, XYZ could improve both self-organisation (Wheatley & Kellner-Rogers (1996, pp. 20-23) and the co-evolutionary dynamics (Stacey, 2011, p. 252) of the organisation, allowing individuals separated by distances to come together to share their entrepreneurial ideas. XYZ should be aware that 95% (179) said they would be open to the opportunity to share and receive best practices and procedures from other advisors in XYZ (Q32).

Figure 7.15 - Welcoming of Opportunity to share best Practices and Procedures

Given that vast distances separate these advisors would make the use of electronic collaboration more efficient than in-person conferences and workshops. Perhaps XYZ could create a section in the CRM* programme, where advisors can share best practices and procedures. The result of organisational collaboration would be improved practice efficiency, while it could also generate innovative ideas to address the advice gap.

7.2.7 Online Meetings

During the interviews, clients felt that XYZ was effectively using technology, suggesting that online statements and advisors' e-mails were an appropriate use of technology. These client responses required additional probing into their use of technology as consumers. Specifically, the older clients interviewed discussed how they use online services like FaceTime and Skype to connect family and other service

providers when separated by distance. They agreed that they would use online meetings if their advisor offered the service. From the survey, only 44% (81) reported conducting online meetings with their clients (Q58). When comparing this question based on the age of the advisors, it became apparent that younger advisors seem more inclined to conduct online meetings, as can be determined from the following chart.

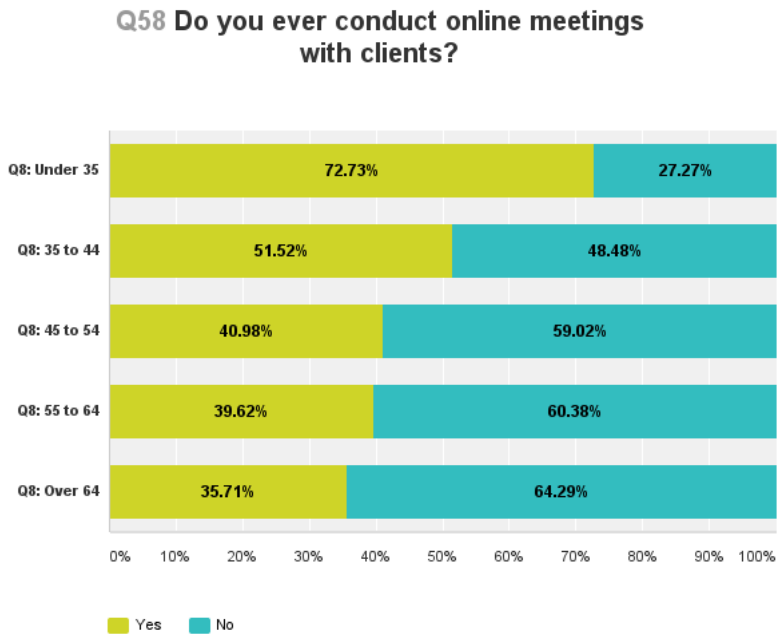

Figure 7.16 - Online Meetings

From the survey, it was evident that those that use online meetings are using them with clients of various age groups (Q59):

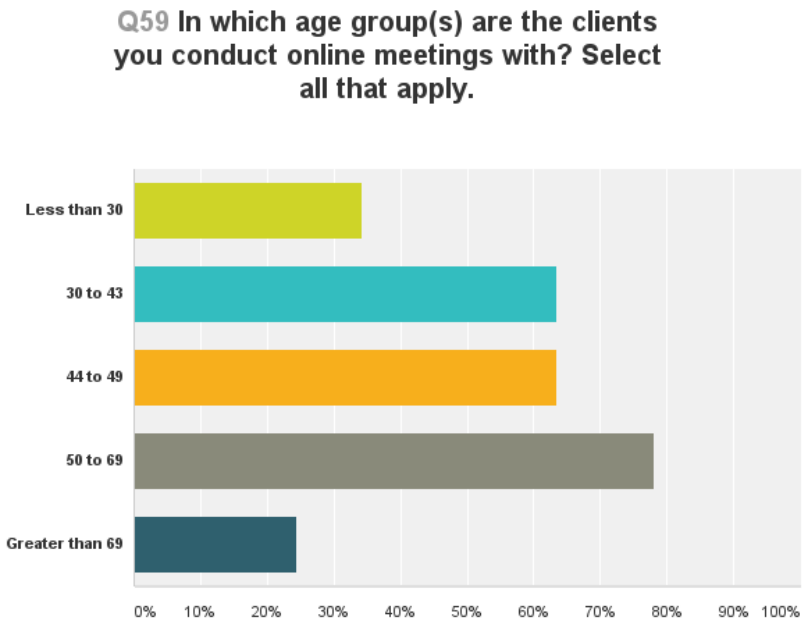

Figure 7.17 - Age Groups of Clients utilising Online Meetings

FaceTime has even been used by one clinical faculty instructor of a graduate nursing programme, as an alternative to onsite clinical site evaluations when student nursing practitioners were interacting with their patients. This technology allowed them to evaluate the student remotely saving the clinical instructor travel time and the university expenses (Krull, 2015). Sullivan & Lazenby (2005, p. 57–61) note that technology changes the way value is created, and companies that lag in the use of technology run the risk of disintermediation. Therefore, using technology like online meetings will not only add value to the client relationship it will also save time and money, making more resources available to service ISIA.

7.2.8 Client Segmentation

Understanding the client segmentation process provides the research with insights into how advisors are beginning to classify clients in their practice. The advisors who have segmented their book-of-business will develop a better understanding of their clientele,

such as the complexity of the client's needs and the profit per client matrix, which could be used to discover available resources to service ISIA. From the advisor interviews only half (5) have segmented their clients, while the rest have not, but would consider doing so if downward pressure on compensation occurred. From the survey, 81% (150) have segmented their clients (Q56).

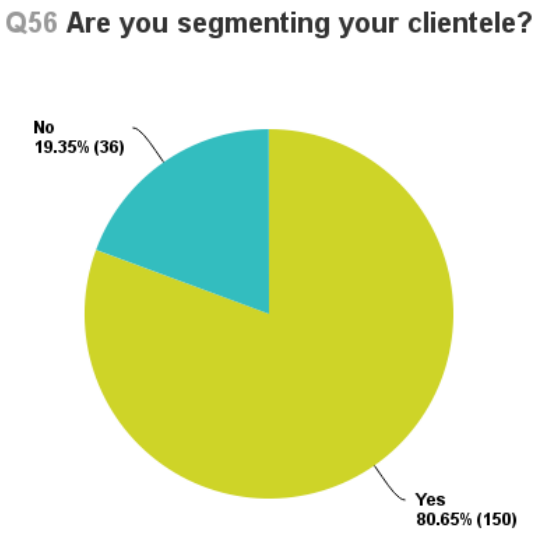

Figure 7.18 - Client Segmentation

Kitces.com (2014) mentions that traditionally advisors would segment clients into tiers (e.g., A, B, and C clients) determined by revenue, referrals, and the ease of the relationship. They discuss how financial advice is not conducive to higher or lower service tiers as it is holistic in nature. To make the point they provide an example of a doctor who segments their clients, suggesting that a physician would not offer only "half a check-up" for their C patients. Therefore, advisors must ensure that they understand the segmentation process and the services and the costs associated with each client segment. With the regulations on fee transparency (CSA, 2012; 2013) it would be expected that some clients may choose to conduct business using a fee-based model, which would involve a percentage fee based on the assets in their account. With the fee-based model the compensation paid for advisory fees can be negotiated between the client and the advisor. Therefore, advisors should begin to understand where revenue in their practice is generated, in preparation for downward pressure on compensation. The

criteria advisors gave in the survey for segmenting their clients were account size 91% (136), account size, 69% (103), location 23% (34), and various other reasons 35% (52) (Q57).

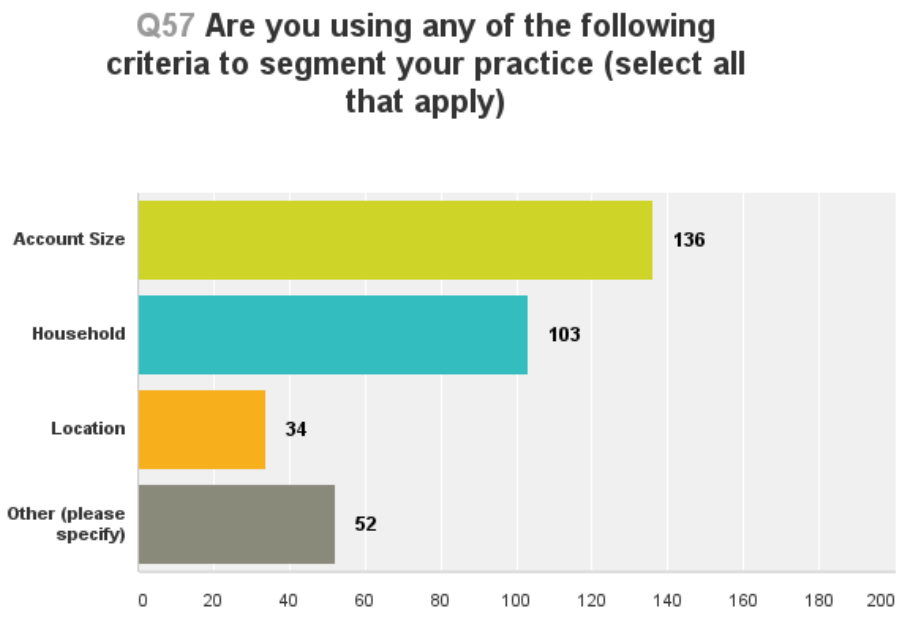

Figure 7.19 - Client Segmentation Criteria

This question provided an open-ended response section for the various other reasons, which was analysed using the text-analysis service provided through SurveyMonkey, whereby the words most commonly provided by advisors are displayed in larger text. These words were future, referral, and relationship, followed by business owners, revenue, and advice. When reading through their comments, I was able to provide context for the words future, and relationship, provided by the text analysis. For example, 'future' related to the future potential of the client, whereas 'relationship' referred to how the advisor and client got along. Understanding the future potential of a client could present opportunities, especially if this client will inherit wealth.

Executives #2 and #3 felt that having tiered pricing would allow ISIA to pay less, with the fee on a percentage-of-assets basis increasing as their account size increases and reaches certain asset thresholds (tiers). From the survey 55% (102) agree or strongly

agree that there should not be a minimum account fee collected on fee-based accounts (Q68). Perhaps an opportunity exists for the organisation to allow advisors to determine these tiers for the client segments in their individual practices.

Through the client segmentation process, advisors could also gain valuable information about their ideal client, assisting them with being more strategic in working with clients. It was interesting that 53% (98) said that they elect to turn down investors who have less than a certain level of assets to invest (Q61). From the responses the average level of assets being turned down was $184,500 (Q62). However, when asked if they were strategically trying to connect to the next generation of investors, 73% (135) said they were (Q87).

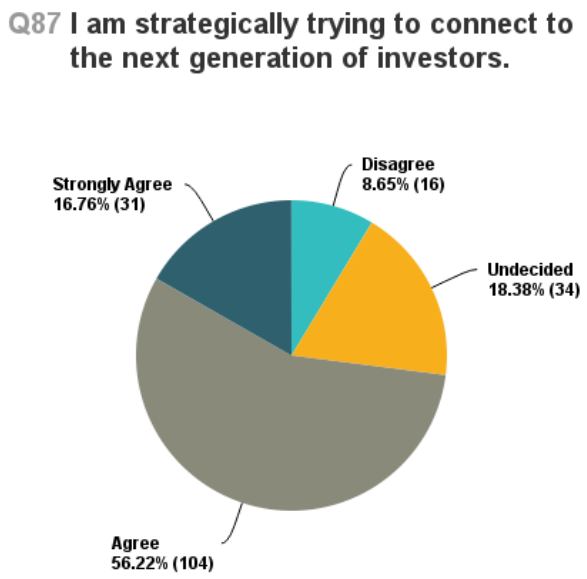

Figure 7.20 - Next Generation of Investors

When analysing this question at the 5% significance level, the Null Hypothesis: $\beta = 0$, where β is the slope of the regression line, was rejected in favour of $\beta < 0$. Although the level of agreement was high for all age categories, one would have expected the level of agreement to increase with age as senior advisors tend to have older clients (Q19). Therefore, intuitively they should be more inclined to strategically connect to the next

generation of investors, who will be inheritors of the older clients' wealth (Appendix B.4).

Connecting to the next generation of investors also goes hand-in-hand with advisor responses concerning whether they were preparing their practice for the intergenerational wealth transfer that will take place in Canada; 85% (158) said they were (Q83).

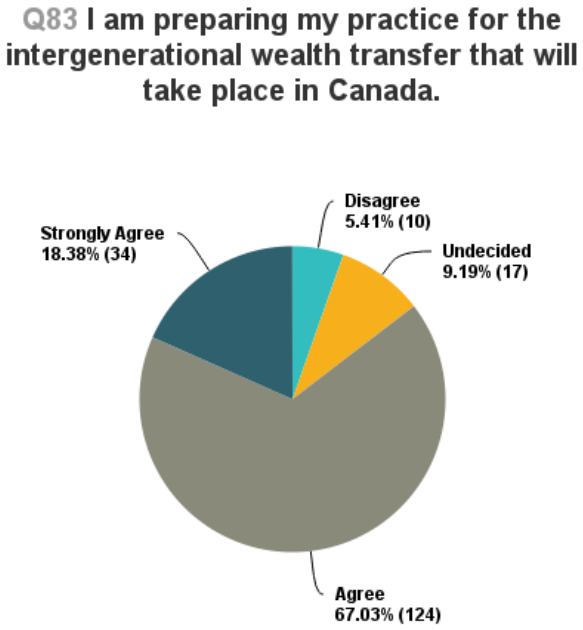

Figure 7.21 - Intergenerational Wealth Transfer

Through the segmentation process advisors can gain insights into developing strategies to connect to the next generation of investors. For example, they could segment their wealthier clients who are presumably older and ask for an introduction to their clients' children or grandchildren. This approach will not only assist with the intergenerational wealth transfer but will provide ISIA now, access to a financial advisor, thereby reducing the advice gap.

7.3 Summary

From the interview themes/subthemes and the survey data, options were developed to assist the advisors of XYZ with continuing to service ISIA. These options would assist advisors with reconciling the external/internal issues stemming from the new financial regulations, especially given that advisor are beginning to turn away ISIA.

There was agreement from the survey that being part of a team-based practice improved practice efficiency and growth. Team-based practices also assist advisors with addressing the complexity stemming from the regulations, through specialisation of advisors. Hiring a junior advisor was an option that could be used by senior advisors or for creating a team-based practice. From the survey advisors tend to deal with clients of like age, therefore, senior advisors would benefit from having a junior advisor in their practice to connect to the next generation of investors and for succession planning purposes. The junior advisor option is also important given that only 39% of respondents had a documented succession plan, while only 54% of advisors older than age 55 had a documented succession plan. The Robo-advisor option addressed numerous technologies for reconciling some of the internal issues concerning efficiency and effectiveness in servicing ISIA. From the survey advisors did not want the organisation to develop a Robo-advisor, but they all agreed that having the components of a Robo-advisor would benefit their practice. There was strong agreement that advisors felt that asset allocation was a value-added service they offer their client, on their own or through the services provided by other investment companies. The survey also supported expanding the NAT, which would improve the referrals of small investment accounts from advisors. The NAT provides a backstop for those advisors not interested in servicing ISIA using a team-based practices or junior advisors strategy, ensuring that clients turned away do not become a statistic of the advice gap or a competitor’s clients.

From the survey 80% considered themselves entrepreneurs, while only 58% have shared their best practices and procedures with the organisation, and only 32% have collaborated with other advisors using the XYZ's CRM* programme. However, 95% responded that they would welcome the opportunity to share and receive best practices and procedures with other advisors in XYZ. People want to be part of a larger organisation for stability and safety, but individually there's a gap between what they want and what they actually do. It is evident that more could be done to facilitate collaboration. Online meetings were viewed as an efficient tool used by advisors and could be used for providing ISIA quick advice, without having to meet in the advisor's office. Another result was indication that advisors - discussed how they segmented their clients, providing guidance for those advisors who have not begun the segmentation process. It is through segmentation that advisors may recognise that they are not representing ISIA, or may find additional capacity to service this segment of the market.

The options presented in this chapter are not mutually exclusive and, as a result of the analysis of the questionnaire, will be used to provide recommendations in Chapter 8 to the advisors based on their age and tenure, as well as recommendations to the executive team. The results from the interviews and survey have assisted me as an advisor. Prior to the interviews I was not aware of how senior clients are interacting with technologies, most feel are used by millennials. I now appreciate the importance of a team-based practice and plan to develop my team by hiring a junior advisor. The survey has made me aware of the advice gap and the importance of being connected to the next generation, in order to prepare for intergeneration wealth and for the future longevity and succession of my practice.

Chapter 8

8 Recommendations

A mixed-method approach to the research resulted in evidence for the development of options to assist advisors with servicing ISIA. In this chapter recommendations are provided to the advisors based on their age and tenure, and whether they are working as a sole advisor or as part of a team-based practice. The intent of these recommendations is to assist advisors with selecting the option(s) most pertinent to their advisory practice. To facilitate the implementation by advisors of these options, recommendations are provided to the senior executive team to assist with implementing these options into practice.

Section 8.1 presents the recommendations to advisors, 8.2 the recommendations to the senior executives of XYZ, and 8.3 a summary.

8.1 Recommendations to Advisors

	0-4 years of tenure (to age 35) Sole Advisor	More than 5 years of tenure (over age 35) Sole Advisor	Team-based Practice
Robo-advisor	✓	✓	✓
Asset Allocation	✓	✓	✓
Collaborating	✓	✓	✓
Client Segmentation	✓	✓	✓
Online Meetings	✓	✓	✓
Team-based practice	✓	✓	
Hire a junior advisor		✓	✓
National Accounts Team	✓	✓	✓

Table 8-1 Options based on Tenure and Age (Sole Advisor or Part of a Team)

The new financial regulations have three dimensions: the external dimension which focuses on the impact on the CFSI, the internal dimension that focuses on the implications to XYZ, and the intersection of these internal/external dimensions. The discussion of the recommendations is concerned with this internal/external dimension.

8.1.1 Robo-advisor

Robo-advice is a recommended option for all advisors. Some advisors may be more inclined to use technology making this transition easier for them. Implementing the components of a Robo-advisor into an advisor's practice over time could make the transition less onerous. During the interviews, it was apparent that XYZ has been exploring the use of these components. I appreciate the apprehension to the development of a Robo-advisor, but I understand the importance this technology brings to the industry, such as automated portfolio construction and management, account aggregation, risk assessment, tax optimisation, rebalancing, and reporting (Wessel, 2015; O'Brien, 2015). It is interesting to note that 71% (131) felt that the organisation was effectively using technology to assist them in connecting with their clients (Q72). These responses express the level of confidence advisors have in the senior management team. Therefore, advisors should allow senior management to conduct more research into how the components of a Robo-advisor could assist with running more efficient advisory practices. Robo-technology can even be used to help with connecting to the millennials in Canada. It is anticipated that the millennials will be those caught in the advice gap, given that they are just beginning to save.

8.1.2 Asset Allocation

All advisors should consider the option of using asset allocation in their development of portfolios. From the survey, asset allocation was a key value-added service that advisors

offer their clients on their own or through the services provided by other investment companies (Q77). Currently, XYZ does not provide the tools for advisors to conduct asset allocation on advisor-constructed portfolios. However, there are programmes available that will interface with back-office client data, thereby allowing the advisor to build and monitor portfolios for rebalancing purposes (Charles River, 2016). For those advisors using fee-based accounts, the use of ETFs or other investments that do not pay trailing commissions could be utilised, increasing the product breadth to clients. Using these investments could provide lower cost investment options for clients concerned about fees. Asset-allocation tools would allow these advisors to offer another level of value-added service to their clients. In doing so, the efficiency of an advisor's practice would improve, allowing advisors to strategically align themselves with ISIA, who through inheritance or personal accumulation will be the large accounts in the future.

8.1.3 Collaborating

Collaboration is a recommended option for all advisors. Given the complexity facing XYZ from the new regulations, it will be important for collaboration to occur to assist with 'sense-making' (Lüscher & Lewis, 2008) and 'sense-giving' (Gioia & Chittipeddi, 1991).

Given the geographical distance between the advisors, XYZ must find new ways to embrace the entrepreneurship and innovation in XYZ to effectively compete (Thompson & Heinonen 2014, p. 264). Advisors spend the majority of their time preparing and conducting meetings. Therefore, sharing best practices and procedures using XYZ's CRM* programme could provide new resources for addressing the regulatory changes and for continuing to service ISIA. XYZ is doing this with the information brought forward by one advisor; 53% (99) surveyed had enrolled in the programme created by XYZ based on this advisor's research (Q40). This advisor programme also allows advisors to access this information using XYZ's CRM* programme. 80% (78) of those

surveyed found the programme effective at helping them grow their business (Q41). To date only 58% (109) have shared their best practices and procedures with the organisation (Q31), and 95% (179) responded that they would be open to the opportunity to share and receive best practices and procedures from other advisors in XYZ (Q32). From these responses, it is clear that more could be done to assist advisors with sharing and receiving best practices. Therefore, collaborating as an office or online using our CRM* programme would assist with bringing these ideas forward. Collaboration would not only assist advisors, but it would also support the executive team with insights into what advisors want and require when working in the field. According to the survey, 69% (128) think the senior executive team is open to suggestions and ideas from financial advisors (Q88). Using our CRM* programme would be a way for advisors to provide suggestions and ideas to XYZ, potentially leading to innovative and creative ways for continuing to service ISIA, thereby reducing the advice gap.

8.1.4 Client Segmentation

Client segmentation is a recommended option for all advisors. From the interviews and survey data, segmentation was uncovered as a way to obtain higher-level information such as the level of financial advice required, profitability, and potential future of the client. XYZ currently provides educational material for advisors wanting to assess their client base for segmentation purposes. These materials allow advisors to examine their total assets by looking at the average assets and yearly revenue per client. In doing so, an advisor can create an action plan for those interested in developing a tiered-service model. From the survey, advisors provided the following criteria for how they are segmenting their practices: 91% (136) by account size, 69% (103) by households, 23% (34) by location, and 35% (52) by various other ways (Q57). The other ways related to the future potential of the client and the relationship the advisors had with the client. Through the segmentation process, advisors may also realise that they do not have

exposure to the next generation of investors, or may find additional slack in their practice that could be used to service ISIA, reducing the advice gap in XYZ.

8.1.5 Online Meetings

Online meetings are a recommended option for all advisors. Some advisors may not feel comfortable conducting meetings online with their clients. Nevertheless, discussing or collaborating with other advisors who conduct online meetings may assist with making this transition in an advisor's practice. From my experience, online meetings have helped me with creating more meaningful relationships with many of my senior clients who do not wish to travel to my office. It has also allowed me to provide a digital experience for my younger clients. Many of these younger clients require answers to debt management and simple financial planning related questions. These questions are easily discussed using online meetings, and I have found that online meetings are shorter in length than an in-person consultation. Online meetings are also an important way to keep in contact with clients who travel. The senior clients interviewed, stated that they would use online meetings if their advisor offered them as an option. Some of the clients interviewed said they travel and stay in touch with others using FaceTime or Skype. Presently only 44% (81) of advisors surveyed are conducting online meetings (Q58), while the average age of their clients who use online meetings was 48 (Q59). These advisors were using the following services to conduct their online meetings: FaceTime 27% (22), Skype 54% (44), Go-to-meeting 40% (33), Join.me 16% (13), and 13% (11) were using other services such as Webex, Mikogo, and Teamviewer (Q60). Through more impromptu, online meetings advisors could continue to provide financial advice to ISIA.

8.1.6 Team-based Practice

The team-based practice is recommended for all advisors working as a sole advisor. The younger advisors with less tenure would benefit from partnering with a more senior advisor, providing them with a mentor, whereas the senior advisors would benefit by having a successor in practice to service the practice when they retire. A study conducted in Canada determined that team-based practices grow faster than a sole advisor practice. These team-based practices also have more affluent clients and are strategically focused on connecting to the wealthy client's children and grandchildren (PriceMetrix, 2015). This strategy is an excellent way to reduce the advice gap in XYZ. Teams also provide an opportunity for advisors to specialise. For example, an investment specialist could conduct and monitor portfolios, while an insurance specialist could provide insurance strategies for the family. Finally, a junior advisor could connect with their affluent client's heirs, who are presumably ISIA, by educating them on the financial process and preparing them for the intergenerational wealth transfer.

8.1.7 Hire a Junior Advisor

Hiring a junior advisor is a recommended option for advisors over age 30 and with over five years of tenure. The reason is that those under 30 years old are just beginning their careers and could be the junior advisors a more senior advisor may choose to employ. Having a junior advisor could assist with tiered services in a practice; the junior advisor would service ISIA. This approach would provide the junior advisors with the fundamentals of the advisory relationship, as they would be growing with these clients, providing the junior advisor with practice-based learning. From the survey, it was evident that there was a relationship between the age of a client and the age of an advisor, as clients tend to deal with advisors of like age (Q19). Therefore, hiring a younger advisor would assist the practice with connecting to the next generation of investors, creating generational continuity within a financial advisory practice. An

interesting finding from the survey was that for advisors over age 55, only 45% (37/83) had hired a junior advisor (Q9). Hiring a junior advisor would assist with succession planning and would provide longevity to an advisor's practice. Advisors should be aware of the competitive pressure that will take place in the marketplace as firms strategically position themselves for the intergenerational wealth transfer. Preparing for the intergeneration wealth transfer would reduce the advice gap in the organisation.

8.1.8 National Accounts Team (NAT)

Using the services of the NAT is a recommendation for all advisors. From the survey the average account size being turned down by the advisors in XYZ was $184,500 (Q62). The following table provides the average account size advisors are turning down when Q62 was filtered by age.

Advisor Age	Average account size being turned down
Under 35	$133,500
35 to 44	$175,000
45 to 54	$194,500
55 to 64	$198,500
Over 64	$141,500

Table 8.2 – Average Account Size being turned down by Advisor Age

From the survey 65% (121) believe that the new transparency regulations will make it difficult for those with under $150,000 of investable assets to gain access to the financial advice they offer (Q80). Accordingly, advisors should familiarise themselves with the services provided by the NAT to ensure the clients they turn away do not become clients to a competitor. Using the NAT would also provide a way for the advisor to ensure that investors continue to receive financial advice, thereby reducing the advice gap.

8.2 Recommendations to the Executive Team

The recommendations to the executive team are: fee-based accounts (8.2.1), National Accounts Team (8.2.2), Robo-technology (8.2.3), asset-allocation tools (8.2.4), entrepreneurial collaboration (8.2.5), and team-based practices (8.2.6).

8.2.1 Fee-based Accounts

From the survey, only 48% (90) are using XYZ's fee-based accounts platform (Q54), while 55% (102) of advisor agree or strongly agree that there should not be a minimum account fee collected on fee-based accounts (Q68). 70% (129) agree or strongly agree that when choosing a fee-based platform, automatic tiered fees would be important for them (Q67). An opportunity exists for XYZ to improve the advisors' use of the fee-based programme by allowing advisors to set the fee they deem appropriate. One survey respondent made me aware, during member checking, that XYZ's fee-based platform is charging an additional fee to clients of $22.50 per stock or bond transaction. By allowing advisors to set tiered pricing and by removing the additional $22.50 fee could increase advisors' use of the fee-based platform. Doing so will become more important as ETFs increase in use, as trading ETFs would result in a $22.50 transaction fee. Tiered fees would provide ISIA access to the fee-based platform, as they are currently required to have $150,000 of investable assets, to meet the $1,500 minimum annual fee (based on a 1% advisory fee). Providing the fee-based platform for ISIA would increase their choice and would reduce the advice gap.

8.2.2 National Accounts Team (NAT)

Only 58% (109) of advisors surveyed said they would consider transferring or selling small investment accounts to the NAT (Q28). However, 44% (81) responded that having

a NAT in their province would improve their consideration to transfer or sell small investment accounts to the NAT (Q81). This result was an important finding as 52% (98) of the respondents were from Ontario (Q9), where the NAT is currently available.

Expanding the NAT into other provinces would improve the referrals from advisors working outside of Ontario. XYZ should also look at various arrangements between the advisors and the NAT. For example, providing a mechanism whereby advisors could refer or sell accounts to the NAT with the option to take or buy the accounts back when predetermined advisor/client asset thresholds are met. Doing this may improve the types of clients being referred, providing the NAT advisors with a more diverse range of account sizes. Referring to the NAT would also provide ISIA access to a financial advisor reducing the advice gap.

The expansion of the NAT across Canada would also allow XYZ to hire younger advisors, assisting them with lowering the average age of advisors. Lowering the average age of XYZ advisors was a goal stated by the executive team during the interviews. Hiring younger advisors in the NAT would create a pool of talent from which senior advisors could hire in the future. This option was discussed during the executive interviews as a way to also reduce the hiring risk, such as training and flight risk associated with hiring a junior advisor. Through the NAT, ISIA would have access to financial advice, reducing the advice gap.

8.2.3 Robo-technology

From the survey it was interesting that advisors are willing to use the components of a Robo-advisor but do not want XYZ to develop one. Given that advisors welcome the components of a Robo-advisor presents an opportunity for XYZ to develop these components, without making any reference to Robo-technology. I find the term Robo-advisor inappropriate, as it sounds like a replacement for a human advisor. However, if

advisors had these tools they would run more efficient advisory practices, thus allowing them to service ISIA. One survey respondent, during member checking, who sits on XYZ's advisory review committee for Robo-technology, explained that they did not understand what a Robo-advisor was. After describing the components of Robo-technology to them, their response was that they would embrace Robo-technology if it made their job easier to onboard clients. There appears to be a lack of understanding by the advisors as to how they could use Robo-technology in their practice. Perhaps XYZ when examining its position on Robo-advice could look at providing these components to advisors piecemeal, thereby allowing the advisors to build their advisory technology support system (Robo-advisor). As Sullivan & Lazenby (2005, p. 154) note, technology can be used to address simple and complicated problems, whereas complex and hyper-complex problems in the financial service industry today require advisors to interact with their clients and technology together. The components of a Robo-advisor would certainly assist with connecting to the next generation of investors who potentially have less complicated investment needs, ensuring that ISIA have access to advice. It would also make more time available for advisors to address the complex and hyper-complex needs of clients such as financial and estate planning. From the surveyed 75% (138) responded that XYZ has been effective in supporting them in the delivery of financial, estate, and retirement planning (Q84), indicating that XYZ is positioned for the complex problems facing clients. However, XYZ lacks efficiency for addressing the needs of ISIA, who presumably have simple problems which Robo-technology could address.

8.2.4 Asset-allocation Tools

From the survey, 78% (144) agree or strongly agree that asset allocation was a key value-added service they provide their clients (Q77). Presently the only asset allocation available to advisors is through the asset-allocation services provided by third-party mutual fund companies or the proprietary asset-allocation programme offered by XYZ. Advisors could try to conduct asset allocation on their own, but this would require an

enormous amount of time, which instead could be automated using technology, such as that offered by Charles River (2016). This technology would allow advisors to prepare and monitor the asset allocations of their clients' portfolios. From my conversations with some of the survey respondents, they mentioned how they would welcome the tools to construct and monitor the asset allocation of the portfolios they construct since the asset-allocation programmes offered by third parties or XYZ's proprietary programme are limited in the investment options available.

Providing advisors access to an asset-allocation programme would increase the breadth of investment options available to construct portfolios. For example, a fee-conscious investor may want a portfolio with low MER funds or ETFs. Using an asset-allocation programme would inform the advisor when the portfolio required rebalancing. Having asset-allocation tools will be important as advisors are trying to establish a value proposition with their clients, while also seeking to ensure that they are not limited in their investment options, given the increasing pressure of fee transparency and the introduction of lower-cost investment options. Lower cost may be more appropriate for ISIA, so having the tools to manage these accounts would reduce the advice gap.

8.2.5 Entrepreneurial Collaboration

The advisors, clients, and executive team agreed that advisors are entrepreneurs. From the survey only 58% (109) have shared their best practices and procedures with XYZ (Q31). It will be important for XYZ to provide ways for advisors and the organisation to collaborate and share information. In fact, 95% (179) would be open to the opportunity to share and receive best practices and procedures from other advisors in XYZ (Q32). XYZ should build out their CRM* programme to allow advisors to share and discuss information. For example, when XYZ's compliance department approves advisor-created information, advisors could then choose to share this information with other advisors in the organisation. From my conversations with some of the survey

respondents, there was agreement that they would share information with other advisors, and they felt this would improve the innovation in XYZ. The relationship between an organisation's use of e-business technologies and the impact e-business technologies have on organisational performance and collaboration has been tested, and the result was that e-business technologies directly influence the performance of organisations (Sanders, 2007, p. 1332).

Given that XYZ is a Complex Adaptive System (CAS) (Stacey, 2011, p. 236), the process of entrepreneurship should be exploited whereby individuals or groups of individuals in conjunction with the organisation initiate renewal or innovation, or create a new organisation altogether (Sharma & Chrisman, 1999, p. 18). XYZ should create opportunities for individuals to have meetings, where they can exchange ideas about how XYZ functions, organises, and competes (Zahra, 2015). These meetings would facilitate the three elements common amongst all CAS. First, each involves complex adaptive behaviour, which is a vast network of individual components (financial advisors, organisation members), each following simple rules, with no leader in control. This lack of control makes it difficult to predict outcomes. Second, complex systems use and produce information and signals that stem from their internal (organisational structure and members) and external environment (industry and regulators). Finally, a CAS will change its behaviour to improve its survival rate through the process of learning which will lead to adaptation (Mitchell, 2009, p. 12). A CAS also requires self-organisation. Wheatley & Kellner-Rogers (1996, pp. 20–23) provide the three conditions needed for self-organisation to occur in an organisation. The first is a shared commitment accomplished by creating a shared sense of identity which allows the sense-making capacity of the organisation to form or self-organise around the vision, mission, and values of the organisation. The second requirement is that information must be allowed to flow in a complex system. The flow of this information may appear chaotic, but chaos is the main ingredient for self-organisation to occur. Finally, individual members require access to each other. Given the geographical distance between the XYZ advisors, it will be important for XYZ to use its CRM* programme as a way to bring advisors together around a shared vision and mission, while also allowing

them to exchange information leading to chaos, the main ingredient of self-organisation. XYZ should create an advisory forum and information sharing portal within the organisation's CRM* programme. This sharing portal would assist XYZ with connecting with advisors in a meaningful and productive way. XYZ was successful with launching one advisor initiative across Canada, which 53% (99) have enrolled in (Q40), and 80% (78) have found useful in helping them grow their business. By creating a portal in the organisation's CRM* programme, advisors could bring forward their initiatives, providing XYZ with insights into the entrepreneurialism of advisors allowing them to expand on the information shared. As an organisation, being able to address the intersection of the internal/external issues stemming from the regulation in collaboration will be important. Doing so could also lead to the sharing of best practices and ideas that could assist advisors with continuing to service ISIA in a productive way.

8.2.6 Team-based Practices

Advisors are faced with enormous complexity today, given the new regulations and the specialisation that is occurring within the field of financial advice. For example, some advisors are specialising in providing financial and estate planning or insurance strategies, while others are honing their skills at behavioural coaching. The team-based practice is an excellent way for these specialised advisors to work together, and could provide an innovative way to address the widening advice gap stemming from the financial regulations. There is also a concern that the Canadian regulators may push for a fiduciary standard for advisors, which could magnify the advice gap. Recently, the Life Insurance and Market Research Association (LIMRA) surveyed 1000 advisors in the US concerning the US Department of Labor's proposed fiduciary rules (which will require a higher standard of care for those advisors offering retirement planning advice) and found that 55% of retail advisors plan to drop or turn away ISIA as these new fiduciary rules will increase the amount of time they need to spend with these clients (LifeHealthPRO, 2016). Therefore, expanding XYZ's support for team-based practices

could mitigate the unintended consequences stemming from the regulations on transparency and the proposed fiduciary standard. For example, an advisor or team could hire a junior advisor to service ISIA. Expanding team-based practice support would assist XYZ with lowering the average age of the advisors, since a junior advisor is usually younger and just starting in the industry. During the executive interviews, I was made aware of XYZ's interest in providing junior advisor loans, which would be loaned to senior advisors to assist them with funds to hire a junior advisor. This programme should be further examined to assist XYZ with lowering the average age of advisors and with connecting to the next generation of investors. XYZ should also continue to train the advisors in the NAT so that advisors have a pool of trained talent they can hire.

XYZ should also present advisors with the statistics on the team-based practices already operating. From the survey, 77% (143) agreed or strongly agreed that being part of a team-based practice was important for improving practice growth and efficiency (Q79). Those who are not part of a team may be struggling with how to develop one. XYZ should put in place a programme to assist advisors with making these decisions, especially since only 39% (73) presently have a documented succession plan (Q43), but 43% (49) plan to document a succession plan in the next 12 months (Q44). Perhaps some of these advisors may look at partnering or hiring a junior advisor since only 36% (68) of the advisors surveyed employ a junior advisor (Q36). Done right, a team-based practice would be positioned for the intergeneration wealth transfer by providing advice to younger investors starting out, thereby reducing the advice gap.

8.3 Summary

The recommendations provided assist advisors with servicing ISIA as they address the intersection of the internal/external issues facing XYZ, stemming from the new regulations. With increased regulations the advisors of XYZ have started to turn away

ISIA. The regulations have led to internal issues related to fee transparency and the ability of advisor to service accounts. For example, in Chapter 7, an external stakeholder mentioned how the increase in use of ETFs, which are lower cost investments, only make sense in a fee-based account. Using fee-based accounts could drive advisor compensation down. These changes will also increase the investment products available to advisors, increasing the complexity of portfolio management. Therefore, advisors who make use of an asset allocation program tool would improve their practice efficiency, which would provide them with a unique value proposition and intergenerational wealth transfer strategy to connect ISIA who may be the relatives of the affluent clients.

Robo-advice would improve the efficiency of an advisor's practice and would provide the technology required to connect to the next generation of investors, who presumably have less complicated financial concerns. The recommendation to the executive team was to refer to this technology as an advisory practice efficiency tool and to offer the components of a Robo-advice platform piece meal (E-docs, client portal, IPQ, asset allocation, and educational videos) allowing advisors to select the components they deem important for their practice. Conducting online meetings address some of the internal issues concerning advisor resources specifically to address the needs of the ISIA, who may have less complicated financial concerns.

Entrepreneurial collaboration was a recommendation made to the advisors and executive team as a way to reconcile the new regulations and to improve the innovation and creativity of the organisation going forward. It was recommended that the executive team create a portal in the organisation's CRM* programme that would allow advisors to bring their initiatives forward. Doing so would allow XYZ to address the future, as a CAS, through the self-organising behaviour of the advisors (entrepreneurs), when collaborating using the CRM* programme. Through the client segmentation process, advisors can obtain higher-level information pertaining to the services required by a client and their profitability. Segmentation will also provide advisors with information to develop a tiered services model that could assist with providing advice to ISIA.

Tiered services will provide advisors exposure to ISIA, offering long-term benefits to a practice, through networking and the words-of-mouth these clients will provide, in additional to the client's accumulation of wealth over their lifetime

Corollary to these concerns, the data demonstrates that advisors face internal issues when trying to address the increasing complexity of the industry. As a result, being part of a team-based practice would allow advisors to specialise in their area of interest. When measuring aggregate data for the North American wealth management industry PriceMetrix (2015) reported that team have more AUA, are more productive (measured by the number of households serviced, grow faster than a sole advisor, and are more strategic when dealing with ISIA. The executive team should expand their support to advisors considering the move to a team-based practice and should consider the junior advisor loans as a way to lower the average age of advisors in the organisation for connecting to the next generation of advisors and for succession planning purposes. Sole advisors with more than 5 years of tenure should explore hiring a junior advisor.

For advisors not interested in hiring a junior advisor or in servicing ISIA, the NAT provides a backstop, ensuring that unwanted clients do not become a statistic of the advice gap. The executive team should also expand the NAT team across Canada, as the survey provided evidence that advisors would refer ISIA accounts if a NAT was present in their Province. Expanding the NAT will require the executive team to hire younger advisors to service these accounts. These younger advisors would become a pool of advisor talent, senior advisors could employ in the future. These recommendations will assist advisors with servicing ISIA effectively and efficiently.

Chapter 9 provides another facet of social construction, broadening the research and adding a richer understanding to issues. Taken as a whole, the research pointed to insights for the recommendations to the executive team to assist advisors with moving the recommended options into practice, culminating in an enhanced degree of efficiency and expertise in service to ISIA.

Chapter 9

9 Organisation's Reactions and Conclusion

Before obtaining the reaction from the executives concerning the recommendations, they were provided with the opportunity to reflect on Chapter 7 (results and analysis of questionnaire) and Chapter 8 (recommendations), which were sent to them a week before our scheduled meetings at XYZ's head office in Toronto. The same executives interviewed at the beginning of the research were interviewed at the end in pairs. This decision was made to increase the level of discussion about the research recommendations, assisting with moving advisor recommendations into practice by fostering an open dialogue.

Section 9.1 provides the executives' reactions to recommendations, 9.2 presents how the organisation can move the research findings into practice, and 9.3 provides conclusions to the research.

9.1 Executives' Reaction to the Recommendations

The last research objective was to obtain the reaction of the executives concerning the results from the survey questionnaire and the options recommended for advisors. The interviews provided an opportunity to refine how XYZ can move the advisor options into practice to assist with the servicing ISIA, reducing the advice gap. These options will assist XYZ with reconciling the external/internal issues stemming from the new regulations. I learned from these interviews that 57% of all accounts being serviced by XYZ were less than $100,000, representing seven percent of the total assets under management. We discussed the importance of these figures as this is where the research

interest is directed. The advisor options were then discussed and the executive's reactions and comments were noted for each.

9.1.1 Robo-advisors

Half the executives were part of XYZ's Robo-technology committee. This committee was created to explore the benefits and costs of this new technology. The committee is also trying to determine whether Robo-technology could provide a way to improve practice efficiency for an advisor or provide a level of service to those investors with simple or complicated investment concerns. One executive felt that the millennials would rather do their own investing without the help of a human advisor, while another executive was exploring how technology could be used to provide goal-based strategies. For example, younger clients with simple needs could receive a few goals that could be tracked using technology and the involvement of an advisor, whereas a client with more complex financial needs would have different goals that could be monitored and tracked using technology and advisor feedback. We then discussed how Robo-technology could provide advisors with the tools to connect to the younger generation of investors 'digital native' (Desjardin, 2015) by providing technology that would interface in the advisor/client relationship.

I was asked to present the research findings to XYZ's Robo-technology committee. The presentation was conducted a few weeks later, at which time I was able to provide the context of Robo-technology as both a researcher and as an advisor. It was apparent that the committee was struggling with how to develop Robo-tools that would be embraced by advisors. The executives and the committee found the survey results concerning Robo-technology interesting, particularly how the consensus was that XYZ should not create a Robo-advising platform, which differed from advisor consensus that they would welcome electronic forms, an Investment Policy Questionnaire (IPQ) to create a portfolio, asset allocation tools, organisation-branded educational videos, and the client

portal. The executives recognised the misunderstanding amongst advisors as to what a Robo-advising platform is and how it would work, deciding to refer to this new technology as an automated or digital advice platform when communicating with advisors. They noted that the intention of creating a Robo-advice platform was not for the purpose of attracting clients, instead, it would be used to assist advisors with onboarding and servicing ISIA efficiently. Although this recommendation is costly to implement as an organisation, the executives mentioned how XYZ is already deploying resources to projects involving automated or digital advice.

9.1.2 Asset Allocation

The executives were not concerned with providing advisors with asset-allocation tools. I suggested that XYZ should consider providing a list of approved asset-allocation tools for advisors to use. Currently, advisors who choose to purchase asset-allocation tools are responsible for any unforeseen liability stemming from the programme's use, such as client data exposure. One executive felt that it would make sense to provide an approved list of asset-allocation tools to remove advisors from liability, making the transition to these tools less onerous on advisors. Over time, one executive felt that the number of investment products available to advisors would shrink given the targeted reforms and the proposed fiduciary standard, making such tools less relevant going forward. I did not agree with this comment and explained how, with the potential move to fee-based accounts, the breadth of products might increase leading to more complexity for advisors. The external stakeholder interviewed at the beginning of the research, who was a member of the ETF association in Canada, shared my point of view. Therefore, having the appropriate asset-allocation tools would improve advisor efficiency allowing them to provide more investment options to their clients, especially ISIA who may benefit from lower cost investments (ETFs), which are increasing in number and popularity.

9.1.3 Collaborating

The executives agreed that collaboration was an important issue for XYZ going forward. There was a genuine sense that the executives see the advisors as partners and value advisor input concerning the future development of XYZ. The executives also considered the advisors to be entrepreneurs. I brought to their attention the success XYZ has had when collaborating with one senior advisor who shared their processes and procedures and how this was shared using XYZ's Client Relationship Management (CRM*) programme. Through this collaboration, XYZ has been able to develop best practices and a training resource for advisors. They appreciated the feedback on this programme: 53% (99) of advisors surveyed have enrolled (Q40), and 80% (78) found the programme effective at helping them grow their business (Q41). We then discussed how only 58% (109) of the advisors surveyed had shared their best practices and procedures with XYZ (Q31), while only 32% (61) have used XYZ's CRM* programme to collaborate with other advisors (Q29). However, 95% (179) of advisors surveyed would welcome the opportunity to share and receive best practices and procedures from other advisors (Q32). I also presented my findings obtained during member checking of the survey respondents. It was at this time that many advisors suggested that they should have a way to share best practices and marketing materials approved by XYZ's compliance department. We discussed how to achieve improved collaboration using XYZ's CRM* programme by building out chat rooms for the entire organisation to share and discuss issues. They felt this was achievable but needed to figure out how this could be done in such a way as not to overload advisors with information. I noted that advisors were overloaded with information during the implementation of XYZ's CRM* programme and it was through the complex adaptive behaviour of XYZ that led to chaos, which is the main ingredient required for self-organisation to occur (Wheatley & Kellner-Rogers, 1996, pp. 20–23). We have since managed to develop a CRM* programme created by advisors for advisors. I suggested that we continue to address future issues in the same manner. There was agreement that collaboration between

advisors and the organisation could be used to find innovative and creative ways for advisors to service ISIA.

9.1.4 Client Segmentation

The executives felt fee-transparency would result in advisors choosing to segment their clients, perhaps through tiered services based on the level of a client's invested assets. They found the survey results on how advisors are currently segmenting their clientele interesting: 91% (136) by account size, 69% (103) by households, 23% (34) by location, and 35% (52) for various other reasons, such as the future potential of the client, and the how the advisor and client got along (Q57). The executives acknowledge that segmentation can assist advisors with being more efficient with their resources to meet the needs of the market (Harrison, 2000). However, during the interviews at the start of the research, executive #2 mentioned "we believe you should take that capacity [working with ISIA] and grow a more profitable business and take a lot more care in segmenting your book, and targeting clients under $150,000 that may be the children of significant relationships . . ." This comment suggests that advisors should be strategic in dealing with ISIA. This comment was particularly important given the intergenerational wealth transfer that will take place in Canada (Investor Economics, 2015, p. 17–18). In conclusion, understanding the various segments in an advisory practice was important. It was also evident that XYZ has been successful at developing services for those with large investment accounts and more complex financial needs, but are struggling with connecting to ISIA in a profitable and meaningful way.

9.1.5 Online Meetings

It was interesting to learn from one executive that the financial regulators require an advisor to meet with a potential investor before opening an account, to verify the client's

identity. They noted that an investor could have their identification checked by another advisor in XYZ, thereby allowing the servicing advisors to continue the servicing relationship through online meetings. This procedure would be perfect for those investors who cannot physically meet with the servicing advisor. The executives agreed that an advisor's use of online meetings would be an excellent use of technology, as it requires less time and could improve efficiency in servicing clients. We reviewed the survey results: 44% (81) of advisors are using online meetings with their clients (Q58). When filtering this question by age it was apparent that younger advisors are embracing the use of online meetings more than the senior advisors. The executive team found it interesting that these advisors are using online meetings with clients age 50 to 69. This age group represented 80% of the clients that use this advisory service (Q59). Intuitively the executive team thought that only younger more technology savvy investors would use an online meeting service. I explained how during the client interviews senior clients said they would utilise online meetings if their advisors offered them. From the survey advisors used the following services to conduct online meetings; 27% FaceTime, 54% Skype, 40% Go-to-meeting, 16% Join.me, and 13% used other programmes. These results led to a discussion on whether it would be appropriate for XYZ to have an approved list of online meeting programmes for advisors to use, to ensure that advisors are compliant with client privacy. They agreed and suggested that this is something that could potentially be part of XYZ's Robo-technology going forward. In the end, the executive team views online meetings as an efficiency tool that could be used to service all clients, particularly ISIA.

9.1.6 Team-based Practice

The executives were pleased that 79% (143) of respondents agree to strongly agree that team-based practices were essential for improving practice growth and efficiency (Q79). One senior executive noted how the growth rate of AUA for team-based practices, in XYZ, are higher than those who are working as a sole advisor. They also agreed that

team-based practices would provide additional value-added services to clients going forward, as advisors will be required to provide much more in the way of holistic financial and estate planning, achieved through the specialisation provided by various members of a team-based practice. XYZ has been working on providing tools and resources to advisors considering the move to a team-based practice. The aim of these tools and resources is to assist advisors with the decision and transition. It suggests improved efficiency and profitability within a team-based practice that could be further used to service ISIA, so as to prepare for the intergenerational wealth transfer.

9.1.7 Hire a Junior Advisor

The executives understood the significance of the intergeneration wealth transfer and the risks associated with the average age of advisors. These demographic shifts led to a discussion concerning junior advisors and how they could be used within an advisor's practice to connect to the next generation of investors. Connecting to the next generation is of particular importance given the research conducted by one financial firm in Canada that disclosed that 43% of their clients chose their financial advisors before the age of 35 (Hopkins, 2012). One executive found this interesting and plans to incorporate this research in their communication with advisors. We also discussed how only 14% of advisors surveyed over 55 years of age employ a junior advisor (Q36). There was an inverse (negative) linear relationship between the age and level of agreement of advisors when asked if organisational-branded educational videos would assist them in developing a relationship with the next generation of investors (Q86). These finding shocked the executives, as they understood how the senior advisors would be negatively impacted by not having a connection to the next generation of investors.

At the beginning of the research, one executive noted that the senior and established advisors may be comfortable with their level of income and are therefore not considering the impact the intergeneration wealth transfer could have on their practices.

The executives mentioned that when a senior advisor hires a junior advisor they provide the junior with a mentor so that they can obtain the knowledge and skills required for succeeding in the industry. They also noted that the junior advisor could become the successor of the practice when the senior advisor retires. I mentioned my concern about senior advisors retiring in 10 to 15 years and how the demographics at that time may result in an over-supply of advisor practices for sale, which through supply and demand will result in lower selling prices for these practices. The executives agreed that senior advisors should be encouraged to employ a junior advisor to solidify a buyer and prepare for the intergeneration wealth transfer. One executive noted that the junior advisor's loan programme would be a great way to encourage these advisors to employ a junior advisor. There was agreement that junior advisors would be a great addition to an advisory practice to prepare for connecting to the next generation of investors, thereby reducing the advice.

9.1.8 National Accounts Team (NAT)

I was made aware that since my first interviews with the executives, the NAT had expanded into the city of Saskatoon, by working out of an advisory office there. The intent of this expansion was to assist advisors in the vicinity, who are segmenting their clientele and shedding accounts from their practice, with a place to send these accounts for servicing. The NAT is looking at expanding into the city of Vancouver. Two of the executives felt that the junior advisor option and the expansion of the NAT were two competing options. I noted that both are required to reduce the advice gap. The NAT would pick up the assets that advisors or branches do not want, while the junior advisor would work in a practice and service these accounts at the branch level, both with the mandate to ensure that the small or unwanted accounts by one advisor will remain serviced by another advisor within XYZ. One executive agreed that the intent of the NAT is to provide a service to those clients being turned away, regardless of their

account size, to ensure that they do not become clients of a competitor or a statistic of the advice gap.

One executive felt that those hired for the NAT could eventually provide a pool of qualified advisors for those advisors looking to hire a junior advisor, as the NAT advisors are usually younger and just beginning their career. Over time these advisors would develop an understanding of the organisational culture, systems, and products before entering into an advisor's practice. The executives mentioned how hiring from the NAT could reduce the hiring risk associated with a junior advisor. One of the executives, who has been working with advisors who are segmenting their clientele and shedding client assets, felt that many of the advisor branches of XYZ are overlooking the benefits that a junior advisor could provide the community in which they work, connecting to the next generation of investors and reducing the advice gap. This executive has also been assisting advisors with segmenting their practice with the intent that these advisors would sell or transfer accounts under $100,000 to the NAT. They were interested in the survey findings that the average account size being turned down by advisors was $184,500 (Q62), much higher than the $100,000 they have been working with. They also found it interesting that 65% (121) of the advisors surveyed agree or strongly agree that the new transparency regulations will make it difficult for investors with less than $150,000 of investable assets to gain access to the financial advice they offer (Q80). Therefore, they have decided to communicate to advisors a higher asset threshold to move to the NAT, in anticipation that this will increase the level of assets transferred to the NAT. However, they asked whether advisors should be given the option to acquire these assets back after the advisor's minimum account-size threshold was met. We agreed that rules need to be made and communicated to advisors for transferring and acquiring assets back from the NAT. The executives also see the NAT as a way to ensure that ISIA do not become a statistic of the advice gap.

9.2 Moving the Research Findings into Practice

The following table provides the reactions of the organisation concerning the recommendations with the future action required to move them into practice.

Themes	Executives' Reactions	Recommendations for Future Action
Robo-advisor (technology)	**Used to improve advisor efficiency and for providing tiered services for clients with less complex needs.**	**Continue to examine how efficiencies could be improved with technology, through collaboration with advisors.**
Asset-Allocation Tools	**No real concern to provide stand- alone asset-allocation tools for advisors.**	**Source and provide advisors with an approved list of stand-alone asset-allocation tools.**
Entrepreneurial Collaboration	**See the advisors as partners as they are open to the insights from advisors.**	**Build out the organisation's CRM* programme to allow advisors/executives to collaborate using technology.**
Client Segmentation	**Want to assist advisors with segmentation decisions.**	**Develop tools to assist advisors with their segmentation process, while continuing to develop the various services each segment would receive.**
Online Meetings	**View them as an advisor's efficiency tool and feel they have a place in an advisor's practice.**	**Source and provide advisors with an approved list of online meeting tools, thereby ensuring compliance regarding client security.**
Team-based Practice	**Note how team-based practices grow faster and tend to be more efficient and profitable.**	**Make available to advisors the organisation's statistics regarding team-based practices, while continuing to develop tools and resources to assist advisors with making the transition to a team-based practice.**
Hire a junior Advisor	**Beneficial for connecting to the next generation of investors, would lower the average age of advisors, and bring more technological innovation to the organisation.**	**Educate advisors (especially over 64 years of age) with the benefits of junior advisors, while promoting and strengthening the junior advisor loan programme.**
National Accounts Team	**Option for servicing unwanted accounts by advisors. Looking to expand presence across Canada**	**Continue to educate advisors on the benefits and develop a programme whereby advisors transfer or sell these assets to the NAT with the option that they may transfer or buy back these accounts when predetermined asset thresholds are met.**
Fee-based Accounts	**See them as becoming more important in the future.**	**Allow advisors to tier fees themselves, remove minimum fee and allow advisors to decide when to deduct and pay fee to them.**

Table 9.1 Executives' Reactions and Recommendations for Future Actions

9.3 Conclusion

This thesis has set out to examine how new transparency regulations in Canada have affected financial advisors and their clients, through an in-depth analysis XYZ. Other countries facing similar transparency requirements have adapted and responded to the regulations in different ways, as evidenced by the literature review. This review also presented some of the unintended consequences of the regulations: advice gap (Clare et al. 2013, p. 8), increasing advisory fees (Europe Economics, 2014, p. 82; Weinstein, 2015, p. 65), investor confusion (Varnavides, 2011, p. 217), and reduction in the number of advisors (Clare et al., 2013, p. 3). The thesis will assist XYZ with preparing for any unintended consequences stemming from similar regulations in Canada.

Complex Adaptive Systems (CAS) presented a way to address change management, since it is not possible for leaders in isolation to predict how the new regulations will impact the organisation going forward. XYZ must 'self-organise' (Wheatley & Kellner-Rogers, 1996, pp. 20–23) around a shared vision, mission, and commitment to overcome the advice gap. Using CAS theory provides XYZ with actionable knowledge they can use to address the future of the organisation. It would also benefit the Canadian regulators and others in the CFSI with change management. Similarly, technology presented a way to improve advisor-practice efficiency. Robo-advice was introduced as it appeared in the literature concerning financial regulations. Additionally, technology was explored as a way for XYZ to improve intra-firm collaboration which influences organisational performance (Sanders, 2007, p. 1332). The literature review guided my interview questions, the results of which offered insights into the unintended consequences stemming from the new regulations in Canada, in particular the widening advice gap in XYZ. To develop an understanding of the issues facing XYZ required me to address the research as a social-constructionist.

It is clear that the new transparency regulations have impacted externally on the industry and internally on XYZ, resulting in complexity for the industry participants and a

widening advice gap in XYZ. To conduct my social-constructionist research, the action-research modality was used; it will require action to be taken to address the ability of advisors to service ISIA. Stringer (2014, p. 184) notes that action research is a systematic approach taken to identify the elements that people have when faced with a problem and how the action-research process provides the action required to address the real issues that are impacting those involved, thereby improving their quality of life.

A single case study was used to conduct my action research on XYZ. The case study allowed me to explore a real-life situation (widening advice gap) in a contemporary bounded system over time (Creswell, 2013, p. 97). Research finding were derived from the intersection of the external/internal issues impacting XYZ, while recommendations were presented with the aim to assist advisors with servicing ISIA, reducing the widening advice gap in XYZ.

My choice of a mixed-method research approach was influenced by my research objectives and my relativist - ontological and social-constructionist - epistemological positions. The interviews at the start of the research provided the opportunity to investigate and quantify the issues facing XYZ through various lenses, while the interviews at the end provided an opportunity to share and receive feedback from the executives to improve the implementation of the advisor options. These interviews provided me with the process of reflection-in-action and on-action (Schön, 1983), thereby allowing me to challenge my own assumptions, beliefs, and biases. For example, my prior belief was that clients could explain advisor compensation, but the interviews made me aware that this was not the case. I also assumed that younger clients would utilise online meeting more, however, the senior clients interviewed mentioned how they would utilise online meetings if their advisor offered them as a service. The themes identified from the interviews were used to inform the development of the survey questionnaire. The survey data gathered (188 responses) provided quantitative data of XYZ, offering insights into how advisors could continue to service ISIA. It became apparent that not only are the regulations creating structural changes to

advisors' practices, the aging demographics of investors and the intergenerational wealth transfer in Canada is creating a need for advisors to remain connected to ISIA.

Parsing the research, I developed the evidence into actionable knowledge as advisor options. These options assist advisors by reconciling the external/internal issues which stem from the new regulations, thereby allowing advisors to continue to service ISIA effectively, which was the biggest issue my research revealed. Cost, investment returns, portfolio construction, and value-added services options are provided to advisors, which increase the benefits of working with XYZ. As these options are not mutually exclusive, advisors may select the options pertinent to their advisory practice, making implementation easier. The options do require a time commitment from advisors; however, they have very little cost associated with them.

Among the options presented, Robo-technologies will be the most expensive to develop. It is anticipated that XYZ will provide the Robo-advice components (asset-allocation, IPQ, E-forms, client portal) piecemeal. Without approaching the research through social-constructionism, it may not have been possible to determine that advisors actually do want the organisation to create the technologies offered through Robo-advisors, even though 70% (130) of the respondents were either undecided to strongly disagree with XYZ developing a Robo-advisor (Q76) . The results from the interviews and survey provided insights to actionable knowledge for the advisors and the executive team as they explore the use of Robo-technologies. The executive team now appreciates that advisors did not understand fully what a Robo-advisors is. This thesis assists them with future communication to advisors concerning Robo-technology. For advisors, Robo-technologies will improve the ability to onboard and service ISIA. This finding may have limitation for other organisations interested in the research, as it will be influenced by the level of technology being used in the organisation.

Asset allocation was determined as an important service advisors offer clients. Canada's new fee-transparency regulations are resulting in more products coming to market that are lower cost, increasing the product breadth and complexity of portfolio construction

for advisors. Asset-allocation programme tools will increase advisor efficiency, freeing up time and resources especially if product breadth increases with a move to fee-based accounts. Although the executives did not agree that product breadth would increase, they did agree that XYZ should provide a compliance-approved list of asset-allocation programmes for advisors to use. The asset allocation option will assist advisors by addressing internal issues concerning portfolio construction and lower investment costs, and will provide an advisor's practice with a value-added service for clients. This option may have limitations for other organisations that currently provide advisors with an asset-allocation programme tool, as their collaboration equivalency is already high in this regard.

Company-wide collaboration was viewed as important by both advisors and the executive team for addressing the change and uncertainty facing the industry. All agreed that XYZ's CRM* programme could be used to harness the intrapreneurship in XYZ. Therefore, XYZ should take action to build out the CRM* programme to allow advisors/executives to collaborate using this technology. From the survey 80% of the advisors consider themselves entrepreneurs, 58% have shared their best practices, but only 32% have collaborated with others using the XYZ's CRM* programme. Interestingly, 95% would welcome the opportunity to share and receive best practices and procedures with other advisors. It is clear that advisors want to be part of a larger organisation, but individually there is a gap between what they want and what they actually do. This social-construction thesis will assist the executive team with actionable knowledge. For example, XYZ should provide a way for members of the organisation to create relationships, by expanding the use of XYZ's CRM* programme. XYZ must also harness the entrepreneurial nature of their advisors through intrapreneurship, to innovate, create, market, and expand services (Cunningham & Lischeron (1991). Using the theory of CAS and entrepreneurship will assist XYZ with adapting to and addressing change management issues by using XYZ's abilities to identify opportunities and create novel solutions to see them through. The regulators and others involved with regulatory change would benefit from the process of collaboration and the theory of CAS. However, there would be limitations of this option for other

organisations as it will depend of the entrepreneurial nature of the advisors involved and the level of technology available that can be used to bring the organisation together. From the development of this option, I have decided to share the results of this research through XYZ's CRM* programme, providing me as an entrepreneur with the opportunity to share and collaborate with others concerning the research.

The new regulations are also causing many advisors to explore client segmentation strategies. Done properly segmentation can provide advisors insights concerning the profit matrix per client and can assist with the creation of service strategies for the various client segments. The interviews and survey data provided insights as to how advisors are currently segmenting their practices. It is anticipated that the new transparency regulations will put downward pressure on advisor compensation; therefore advisors, who conduct segmentation can obtain higher-level information, such as the level of financial advice required, profitability, and the potential future of the client, allowing them to develop service strategies to meet each segment's needs. Through intergeneration wealth transfer advisors can ensure that they have a connection to this market segment, either strategically through the relatives of their affluent clients or through a strategy targeted at millennials. The action required by XYZ is to continue to develop tools to assist advisors with their segmentation process while continuing to develop and improve the various services offered to each segment. Through the segmentation process advisors can determine whether they have exposure to ISIA, and what services these accounts require, thereby reducing the advice gap.

My research determined that online meetings were not just a service for young investors. The executives found it very interesting that 80% of clients who participate in online meetings with their advisor were between 50 and 69 years of age. This information has also assisted me as an advisor. In the past I have used online meetings with senior clients who could not travel to my office for health reasons. I now plan to provide this service to my clients in the 50 to 69 age demographic. From the executive interviews it was clear that they view online meetings as a tool for improving an advisor's ability to deal with clients of all asset thresholds. They did note a concern with the potential

compliance risks, mostly due to the number of programmes being used by advisors to conduct online meetings. This was an important finding given the risks associated with internet technology. Therefore, another action required by XYZ will be to provide advisors with a compliance-approved list of online-meeting product providers to choose from, reducing the potential risks. For advisors, the ease of online meetings for addressing simple issues quickly with clients, frees up advisor time or the teams time to assist ISIA. The limitation of this option for other organisation will depend on their advisors' ability to use technology and whether the organisation allows advisors to conduct online meetings with clients.

Being part of a team-based practice was viewed as the most significant recommendation an advisor could choose, as teams have more AUA and a higher growth rate than sole practitioners (PriceMetrix, 2015). Teams can also develop specialisations within a practice, freeing advisors to address areas of the client relationship they are more comfortable or uniquely qualified in addressing. The action presented to the executives to move this recommendation forward was to make XYZ's statistics regarding team-based practices available to advisors, while continuing to develop tools and resources to assist advisors with making the transition to a team-based practice. The actionable knowledge to advisors is the benefit of working in a team to address the complexity of the CFSI, while providing a way in which to connect to ISIA, through a junior advisor.

Teams and sole practitioners could employ a junior advisor to service ISIA to reduce the advice gap, as junior advisors are usually younger and can connect to the next generation of investors, presumably ISIA. The junior advisor could also address the structural changes in the industry. For example, they could provide a senior advisor with a successor for their practice when they retire. Moving this recommendation forward will require XYZ to educate advisors (especially those over 64 years of age) with the benefits of hiring a junior advisor while promoting and strengthening the junior advisor loan programme. The action for the executive team will be to educate senior advisors on the benefits of hiring a junior advisor, while developing a pool of junior advisors for senior advisors to hire from the NAT. The limitation of this option will depend on the

financial resources available to the advisor doing the hiring. This option has also made me aware that as my practice grows, I am starting to connect with more affluent investors; I now plan to hire a junior advisor to assist with connecting with ISIA and for the succession of my practice in the future.

Finally, the survey responses provided the executive team with guidance concerning the expansion of the NAT across Canada. 58% (109) advisors said they would consider transferring or selling small investment accounts to the NAT (Q28), while 44% (81) responded that a NAT in their province would improve their consideration to transfer or sell small investment accounts to the NAT. The action presented to the executive team was to expand the NAT across Canada. Doing so will require the hiring and training of younger advisors within the NAT, providing a pool of junior advisors that senior advisors may choose to employ. During the executive interviews there was a conversation whether the junior advisor and NAT were in competing options. It was determined that they are not, as the NAT provides a backstop for those clients being shed from an advisory practice ensuring that these clients continue to be serviced by an XYZ advisor. To move the NAT option forward, XYZ should continue to educate advisors on the benefits of the NAT. XYZ should also develop procedures whereby advisors can transfer or sell assets to the NAT with the option that they may transfer or buy these assets back when predetermined asset thresholds are achieved. Advisors should develop an understanding of how the transfer of accounts to the NAT is completed, as it provides an option for servicing ISIA. One anticipated limitation is that 52% (98) of respondents were from Ontario, where the NAT was available at the time of the survey (Q9).

With the increased regulatory pressure on the transparency of fees, it is anticipated that the industry will eventually move to a fee-based model. Although not presented as an option to the advisors, a recommendation to improve XYZ's fee-based platform was made to the executive team. XYZ should provide advisors with the discretion to tier the fees charged within the fee-based platform. XYZ should also remove the minimum annual fee of $1,500 charged to clients, while also allowing advisors to decide when a

fee would be deducted and paid to them. These same recommendations were noted by some of the survey respondents during member checking. These advisors felt that having these options would provide them with a better platform to service a range of account sizes at their discretion. It is my contention that if the advisor options provided and the recommendations presented to the executive team are implemented, XYZ can continue to service ISIA, reducing the advice gap.

Through my dual role as an advisor and researcher, I have developed an appreciation of the social-constructionist epistemology. This research has changed my view of XYZ, as I feel more connected to the executive team through their collaboration during the research process and I am confident that XYZ will address this research with an open mind. I am also more confident in the future direction of XYZ, given the entrepreneurial nature of XYZ advisors, and feel that using technology appropriately can assist with addressing issues as a CAS, through the self-organisation facilitated through or CRM* programme. I have also started to research the use of Robo-technologies for my practice, and intend to integrate these technologies to improve my ability to efficiently and effectively deal with ISIA. I also feel there may be an opportunity for me to offer a NAT presence in my office for XYZ, and feel that I am well positioned to train younger advisors entering the business.

There are limitations in this study: interviews were conducted with only some advisors and clients of two branches of XYZ. This limited the responses used to assist with constructing the themes for the survey questionnaire. The internal validity of this research will require the participants in the research to judge the legitimacy and credibility of the research, whereas the external validity of the research will require those wanting to transfer the qualitative research to another setting to do the generalising to a different context (Lincoln & Guba, 1988). Through member checking and my role as an advisor in XYZ, the internal validity was approved. However, applying this research to another financial service firm may present challenges, as it will depend on context of the organisation, their technological advancements and the entrepreneurial nature of that organisation’s advisors. This research will also, I hope, serve members of

the financial service industry in other countries, facing similar regulations, with insight regarding how they may continue to service ISIA effectively and efficiently. Finally, those involved with the development of financial technology could use this research to create technology aimed at improving advisor efficiency, although the size of the study could prove challenging for broad spectrum usage.

I am hopeful that future research will explore whether the new transparency regulations have widened the advice gap in other organisations in the CFSI. With the proposed move to a fee-based platform, future research could examine the impact of this model to determine whether advisor's fees increased and whether the total fees to clients increased or decreased after the regulations, since advisory fees appeared to have increased in the UK after similar regulations (Europe Economics, 2014, p. 82; Weinstein, 2015, p. 65). Future research could also examine whether any new services have been introduced to the CFSI, after the new financial regulations. Given the infancy of Robo-technology, research could be conducted to determine how advisors are competing with or using Robo-technology to service clients. Finally, follow up research could be conducted on the advisors of XYZ to see how they implemented the options to service ISIA to reduce the advice gap, and whether their experience bore out the research's implications.

Canada's new regulations on fee transparency bring into question the cost, investment returns, and responsibility of working with a financial advisor, which are increasing the complexity for advisors. However, the options developed from this research will assist advisors with reconciling the external/internal issues, thereby allowing them to continue to service these meaningful ISIA.

List of Abbreviations

AFM	Authority for Financial Markets (Netherlands)
AUA	Assets Under administration
BNY	Bank of New York
CARP	Canadian Association of Retired Persons
CAS	Complex Adaptive System(s)
CFSI	Canadian Financial Services Industry
CRM	Client Relationship Model (Canada)
CRM*	Client Relationship Management programme
CSA	Canadian Securities Administrators
CT	Complexity Theory
D2C	Direct to Consumer
DoL	Department of Labor (USA)
DSC	Deferred Sales Charge
E-docs	Electronic Documents
ETF	Exchange-Traded Fund
EU	European Union
FCA	Financial Conduct Authority (UK)
FE	Front end
FFPN	Fox Financial Planning Network
FINRA	Financial Industry Regulatory Authority (USA)
FoFA	Future of Financial Advice (Australia)
FSA	Financial Services Authority (UK)
FSB	Financial Stability Board (International)
IDA	Investment Dealers Association of Canada
IFA	Independent Financial Advisors
IFIC	Investment Funds Institute of Canada
IIROC	Investment Industry Regulatory Organisation of Canada

IPS	Investment Policy Statement
IPQ	Investment Policy Questionnaire
ISIA	Investor(s) with a Small Investment Account(s)
LIMRA	Life Insurance and Market Research Association
MER	Management Expense Ratio
MFDA	Mutual Fund Dealers Association (Canada)
MiFID	Markets in Financial Instrument Derivative (EU)
NAT	National Accounts Team
OSC	Ontario Securities Commission
PIR	Post Implementation Review (UK)
PRA	Prudential Regulation Authority (UK)
RDR	Retail Distribution Review (UK)
RS	Market Regulation Services Inc. (Canada)
SEC	Securities and Exchange Commission (USA)
SRO	Self-regulatory organisation
TBG	The Brondesbury Group
UK	United Kingdom
USA	United States of America
XYZ	The organisation being studied

Appendices

Appendix A - Number of Households and Financial Wealth by Asset Threshold for Canada for the year 2014

Individual Wealth in $,000	Number of Households in '000	%	Financial Wealth $ billion	%	Average per Household $
Mass Market					
0 - 50	11,480	73.57%	193	5.35%	16,812
50 - 100	832	5.33%	59	1.64%	70,913
Total	12,312	78.90%	252	6.99%	20,468
Mid-Market					
100 - 250	1,122	7.19%	179	4.97%	159,537
250 - 500	782	5.01%	279	7.74%	356,777
Total	1,904	12.20%	458	12.70%	240,546
Upscale Market					
500 - 750	419	2.69%	264	7.32%	630,072
750 - 1000	301	1.93%	272	7.55%	903,654
Total	720	4.61%	536	14.87%	744,444
Affluent Market					
1000+	668	4.28%	2,358	65.41%	3,529,940
Grand Total	15,604	100.00%	3,605	100.00%	231,031

Data provided by Investor Economics, Toronto.

Appendix B - Quantitative Analysis of Responses

B.1 - Chi-Square Test

Location	Number of Advisors	Observed (O)	Expected (E)	$(O-E)^2/E$
British Columbia	**110**	**27**	**29.3750**	**0.1920**
Alberta	**69**	**21**	**18.4261**	**0.3595**
Saskatchewan	**26**	**10**	**6.9432**	**1.3458**
Manitoba	**36**	**12**	**9.6136**	**0.5924**
Ontario	**339**	**98**	**90.5284**	**0.6167**
Quebec	**71**	**10**	**18.9602**	**4.2344**
Eastern Provinces	**53**	**10**	**14.1534**	**1.2188**
TOTAL	**704**	**188**	**188**	**8.5596**

Table B.1a Goodness-of fit for Location

χ^2 = 8.5596 with 6 degrees of freedom (df): p-value = 0.1999

Age	Number of Advisors	Observed (O)	Expected (E)	$(O-E)^2/E$
Less than 34	**40**	**11**	**10.6818**	**0.0095**
35 to 44	**122**	**33**	**32.5795**	**0.0054**
45 to 54	**225**	**61**	**60.0852**	**0.0139**
55 to 64	**219**	**54**	**58.4830**	**0.3436**
Greater than 64	**98**	**23**	**26.1705**	**0.3059**
TOTAL	**704**	**188**	**188**	**0.6784**

Table B.1b Goodness-of fit for Age

χ^2 = 0.6784 with 4 degrees of freedom (df): p-value = 0.9540

Gender	Number of Advisors	Observed (O)	Expected (E)	$(O-E)^2/E$
Male	**580**	**160**	**154.8864**	**0.1688**
Female	**124**	**28**	**33.1169**	**0.7897**
TOTAL	**704**	**188**	**188**	**0.9585**

Table B.1c Goodness-of fit for Gender

χ^2 = 0.9585 with 1 degree of freedom (df): p-value = 0.3276

B.2 - Z-score Test based on Gender

	Male	Female	Total
Population	**580**	**124**	**704 (N)**
Observed	**160**	**28**	**188 (n)**
Proportion of Population	**0.8238 (P)**	**0.1761 (Q)**	
Proportion of Observed	**0.8510 (p))**	**0.1489 (q)**	

Table B.2 Z-score Test Based on Gender

$$pq/n = 0.0007 \qquad s = 0.0265$$

Z-score $= (p - P)/s = 1.0264$

Right tail = 0.1500

For a 2-sided test: p-value = 0.3000

B.3 - Correlation Analysis

Age	Age (x)	Tenure	Tenure (y)	x^2	y^2	$x * y$
< 35	11	< 10 years	21	121	441	231
35 to 44	33	10 to 19 years	42	1089	1764	1386
> 44	144	> 19 years	125	20736	15625	18000
TOTAL	188	TOTAL	188	21946	17830	19617

Table B.3 Correlation of Age and Tenure

$$S_{xx} = \sum x^2 - \frac{(\sum x)^2}{n} = 10{,}164.00$$

$$S_{yy} = \sum y^2 - \frac{(\sum y)^2}{n} = 6{,}048.67$$

$$S_{xy} = \sum xy - \frac{(\sum x)(\sum y)}{n} = 7{,}835.67$$

$$r = \frac{S_{xy}}{\sqrt{S_{xx} * S_{yy}}} = 0.9993$$

B.4 - Linear Regression Analysis

		Means for various age categories								Reject $H_o : \beta = 0$ in favour of $H_a : \beta < 0$ at 5% sig. level	
Q	**Sample**	**A29.5**	**A39.5**	**A49.5**	**A59.5**	**A69.5**	**Slope b**	**t**	**p-value**	**YES/NO**	**r^2**
63	**4.56**	**4.82**	**4.67**	**4.54**	**4.64**	**4.19**	**-0.0129**	**-2.9786**	**0.0294**	**YES**	**0.7473**
69	**2.68**	**3.09**	**2.67**	**2.80**	**2.64**	**2.33**	**-0.0155**	**-3.3805**	**0.0216**	**YES**	**0.7921**
74	**4.23**	**4.55**	**4.39**	**4.31**	**4.11**	**3.93**	**-0.0260**	**-3.7219**	**0.0169**	**YES**	**0.8220**
81	**3.25**	**3.91**	**3.58**	**3.08**	**3.15**	**3.19**	**-0.0187**	**-2.6429**	**0.0388**	**YES**	**0.6995**
86	**3.72**	**4.00**	**3.76**	**3.75**	**3.66**	**3.59**	**-0.0092**	**-4.6706**	**0.0093**	**YES**	**0.8791**
87	**3.81**	**4.36**	**3.94**	**3.74**	**3.72**	**3.78**	**-0.0138**	**-2.4544**	**0.0457**	**YES**	**0.6676**

Table B.4a Inverse (negative) linear relationship of Level of Agreement (dep.) on Age (indep.)

		Means for various age categories								Reject $H_o : \beta = 0$ in favour of $H_a : \beta > 0$ at 5% sig. level	
Q	**Sample**	**A29.5**	**A39.5**	**A49.5**	**A59.5**	**A69.5**	**Slope b**	**t**	**p-value**		**r^2**
73	**3.75**	**3.64**	**3.67**	**3.69**	**3.87**	**3.81**	**0.0054**	**2.9636**	**0.0297**	**YES**	**0.7454**
78	**3.02**	**2.91**	**2.91**	**2.97**	**3.09**	**3.19**	**0.0074**	**5.4357**	**0.0061**	**YES**	**0.9078**
82	**4.36**	**3.91**	**4.03**	**4.44**	**4.40**	**4.67**	**0.0189**	**5.6316**	**0.0056**	**YES**	**0.9136**

Table B.4b Direct (positive) linear relationship of Level of Agreement (dep.) on Age (indep.)

Note 1: The calculation of the Sample and the Means is based on 1, 2, 3, 4, 5 for Strongly Disagree, Disagree, Undecided, Agree, and Strongly Agree, respectively.

Note 2: The remaining Likert scale questions do not yield sufficiently strong evidence for one to say that there is a direct or inverse linear relationship. All testing was done at the 5% significance level.

Glossary

Advice Gap The advice gap consists of those individuals who, by virtue of their small investable assets, are unable to access the advice of a financial advisor.

AT360 AT360 is an advisor led initiative that was endorsed by the organisation being studied. Advisors who enroll in this programme have access to the best practices and procedures of this advisor.

Asset-based Fee The asset-based fee is an arrangement in which the investor pays a fixed per cent of their total invested assets, for example, one per cent annually for the advice and services of a financial advisor.

Behavioural Coaching Behavioural coaching is when an advisor assists a client, who may struggle on their own to achieve their goals, by bringing a new or reframed vision and goals into an achievable reality.

Book The book of a financial advisor is a record of all the financial advisor's clients and the assets of those clients under administration by the advisor. The book is what the financial advisor would sell when he/she sell his/her practice.

Case A case refers to a well-defined system such as an event, a programme, a process, or a group of people forming a business or an association, which is the focus of research and analysis.

Case Study A case study is the result of research and analysis of a case within a real-life setting or context.

Client Onboarding Client onboarding is leveraging the use of automation for bringing a client into the organisation. This may include direct to client technologies for getting their account open, instead of dealing face-to-face with a financial advisor.

Client Portal A client portal provides a secure private website that clients of an financial advisor log into, with a password, in order to view personal and confidential financial information. Some even provide educational material and financial management tools that clients and advisors can use in collaboration or independently on their own.

Complex Adaptive System(s) (CAS) A complex adaptive system is an organisation comprised of many active agents. The agents may act individually or in groups and may be unaware and/or unaffected by the actions of the other agents. A small change effected by one agent or group of agents may cause a big change in the organisation or it may be insignificant.

Complexity Theory Complexity theory is a branch of the theory of computation in theoretical computer science and mathematics; it involves the classification of computational problems according to their level of difficulty.

Deferred Sales Charge A deferred sales charge is a sales charge that is assessed when an investor sells certain classes of fund shares before a specified date (maturity date). The advisor who sold the funds would receive compensation from the fund company at the time of sale. A deferred sales charge is usually on a sliding scale from one to seven years after purchase with the charge eventually going to zero.

Disintermediation Disintermediation is the process of cutting out the middlemen (intermediaries), which in finance and economics means lessoning the use of banks and savings institutions in favour of direct involvement in the securities market.

Dynamic Equilibrium An organisation is in dynamic equilibrium when its state of equilibrium is continually changing.

E-docs e-docs are documents that are received electronically, either as an attachment through an e-mail or through a link to a website storing the document.

Edge of Chaos The edge of chaos is the separation between an organisation in dynamic equilibrium and when it is out of control. In science, it is a metaphor for how some biological, physical, economic, and social systems function between order and what can appear as complete randomness, otherwise known as chaos. It occurs where and when complexity is at its maximum.

Embedded Compensation Embedded compensation is linked to a specific product and is not consider transparent or visible to the investor. One form of compensation paid on mutual funds sold through advisors is a trailing commission; they are embedded in the cost of the mutual fund.

Entrepreneur An entrepreneur is an innovative individual with initiative and leadership skills who is not afraid to take risks in the hope of making a profit.

Exchange-Traded Fund An exchange-traded fund (ETF) is a marketable security that trades like a stock and is traded on a publicly traded exchange. An ETF is made up of holdings that track the holdings of an underlying index or can they can track the performance of a specific commodity. An ETF typically has lower fees, given their passive investment mandate, than an actively managed mutual fund, thereby making them a more cost effective way for investors to participate in the performance of specific stock markets.

Fiduciary Duty Fiduciary duty obligates one to act in an open and honest way without conflict of interest.

Front-end Load (Charge) A front-end load or charge is a sales charge that is applied at the time of the initial purchase of a mutual fund. This charge is deducted from the investment amount, thereby lowering the amount of the initial investment.

Intrapreneurship Interapreneurship exists when a number of entrepreneurs working for an organisation share their ideas in a cooperative and productive manner.

Investment Policy Questionniare (IPQ) The IPQ is a series of questions designed to ask an investor in order to gain an understanding of their tolerance for investment risk. The results from an IPQ are then used to develop an investment policy statement (IPS).

Investment Policy Statement (IPS) The IPS (based on the results obtained from the IPQ) is a document that sets out the objectives and goals that are to be attained through the investment in a portfolio. It may also provide guidelines to the investments held in the portfolio and the boundaries for the portfolio's asset allocation.

Management Expense Ratio (MER) The management expense ratio is the percentage taken annually from the fund to cover the expenses of the administration of the fund; it may or may not include a fee paid to the organisations selling the fund.

Modular Advice Modular advice is the concept that the client would pay an advisor to complete a certain task, viz. the module, like the creation of a budget or a financial plan, which could be charged to the client based on the advisor's hourly rate or on a set fee based on the size of the client's account.

National Accounts Team The National Accounts Team is team of advisors who work for the organisation and provide advice and service to accounts that have been referred by advisors who have their own practice. The accounts being referred are usually small or less active, thereby allowing the advisor to focus on the more productive relationships in their practice.

Principal Agent Model The principal agent model is a relationship in which the dealer firm appoints the advisor to act on its behalf in the delivery of financial services to clients.

Robo-advisor A robo-advisor is an automated, algorithm-based portfolio management advice service separate from the advice provided by a financial advisor.

Team-based Practice A team-based practice involves combining the skills of multiple professionals to cultivate relationships with clients in a more holistic and profitable manner.

Tiered Pricing Tiered pricing for financial services corresponds to certain break points of investment account sizes being charged different prices.

Trailing Commission A trailing commission is a form of embedded compensation which is paid at regular intervals on the sale of a mutual fund to the advisor's firm (dealer); it is shared between the advisor and the dealer.

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