**The impact of interconnectedness in a triadic relationship between a financial services provider, IFAs, and customers**

**Introduction**

The aim of this study is to investigate the impact of interconnectedness between a long-term savings and investments provider, Independent Financial Advisers (IFAs) and customers. Ritter’s (2000) framework of the effect of interconnectedness was used to analyse this triadic relationship. Conceptual studies of triadic business relationships are scarce in marketing and organisational research (Blakenburg & Johanson, 1992; Havila, Johnson & Thilenius, 2004; Ritter, 2000). However, the applicability of a triadic relationship has been tested in a number of case studies (Andersson & Mattsson, 2004; Cunningham & Pyatt, 1989; Jaaskelainen, Kuivalainen & Saarenketo, 2000; Narayandas, 2002; Odorici & Corrado, 2004; Pardo & Salle, 1994; Trimachi, 2002). This study was conducted in collaboration with one of the UK’s largest long-term savings and investments providers. A substantial proportion of the provider’s business is conducted through IFAs and thus their significance as a major stakeholder. Indeed, the majority of sales in the long-term savings and investments industry in the UK are realised through IFAs. Academic studies (Gough, 2005; Gough & Nurullah, 2009) have indicated that IFAs are the strongest distribution channel in the industry. Thus, by analysing the impact of the interconnectedness in this relationship, a strategy that can increase the relationship performance can be proposed. However, to the best of the authors’ knowledge, a study that investigates the effect of the interconnectedness in this triadic relationship has not been established. In addition, the regulatory environment which continues to face change such as the recent implementation of Retail Distribution Review (RDR) on 1st January 2013 will make the relationship more rather than less complex.

**Literature review**

Intermediaries such as IFAs are considered as the actors who economize on interaction costs by specialising in handling a large number of transactions on behalf of buyers and sellers (Alderson & Martin, 1965). Both customers and companies may find it more advantageous to involve intermediaries in approaching and generating sales from customers. Customers can reduce the number of business ties with suppliers and benefit from specialist knowledge by using intermediaries. For instance, instead of dealing with many different long-term savings and investments providers, customers can just deal with one IFA who looks after their financial planning. Furthermore, because of the complexity of the long-term savings and investments industry it will be more beneficial for end customers to employ IFAs. From the company’s perspective, using intermediaries can create savings because it is costly to manage customers individually (Jensen, 2010). Nevertheless, this may give the intermediary some power because it now holds the interface between the customer and supplier (Mudambi & Aggarwal, 2003). The actors in the triads must co-operate and co-ordinate their efforts to have an effective relationship, but sometimes they also compete with each other (Holma et al., 2009). For instance, even though the majority of the sales in the long-term savings and investments industry are generated through the IFAs, the collaborative company also sells products directly to customers. Some may argue that providers should turn directly into the end users instead of using middlemen or intermediaries. However, contacting the customers directly, can disturb the relationship between the supplier and the intermediaries. Intermediaries may feel that their customer relationships are threatened (Gummesson, 2002; Jensen, 2010). Thus, in return the intermediaries may protect their business by withholding information and blocking personal contact between the supplier and the end customers. Therefore, Gummesson (2002) proposes that suppliers can choose their mission to be “helping customers to do business with their customers” (p. 79).

In a triadic relationship, a third actor is added to a dyad. Thus, a triad can be considered the smallest conceivable network where the connectedness of the relationship can be investigated (Tähtinen & Halinen-Kaila, 1997). A business triad is defined as a network of three independent actors connected to each other by a direct relationship for the purpose of doing business (Tähtinen et al., 1997). A triad is “transitive” which means that each of the three actors has a direct connection with each other (Madhavan, Gnywali & He, 2004). However, it is important to note that even though the actors have a direct relationship, they do not always need to interact directly at the same time (Havila et al., 2004). There are two types of triads which have been recognised in the academic literature, a series-like open triad and a group-like closed triad (Geersbro & Vedel, 2008). It is suggested that serial-like open triads should be studied as two interconnected dyads. In contrast, group-like closed triads should be studied as triads (Havila et al., 2004). However, Blakenburg and Johanson (1992) use the term triad regardless of whether there is a direct connection between the first partner (in this study, the collaborative company) and the third partner (in this study, the end customers). This approach emphasises the fact that no matter whether the triad is open or closed, it is more than its constituent dyads because relationships influence each other and the dynamics in the triad are the result of changes in the dyads (Komulainen et al., 2005).

In a triadic relationship, each of the three parties becomes an intermediary between the other two (Havila et al., 2004). Therefore, in a triad, the relationship between F and A can be influenced by the relationship between A and B and the relationship between F and B (Havila et al., 2004). Ritter (2000) summarises that in the inter-organisational relationship perspective, relationships are connected when a relationship affects or is affected by what is going on in another relationship. The interconnectedness between two relationships can be positive and negative. But it is also recognised that not all of the relationships are connected. This is known as neutral or no effect. Based on this definition, he identifies six possible effects of inter-organisational relationships. These are: neutrality effect, assistance effect, hindrance effect, synergy effect, lack effect, and competition effect. In addition to the effect of one relationship to another relationship, it is also highlighted that between any two relationships (x) and (y) there can be an effect of (x) on (y) and at the same time there can be an effect of (y) to (x) that needs to be taken into consideration (Ritter, 2000). These are: unitary neutrality effect, initiation effect, by-pass effect, and hierarchy effect. By analysing the interconnectedness in a triadic relationship, one can identify which relationship(s) “hinder, weaken, strengthen, or enforce another relationship” (Ritter, 2000, p.321). Therefore, by managing other relationships in the network, the performance of a relationship can be changed. Based on this suggestion, the current study employed the framework in analysing the interconnection in the triadic relationship between the collaborative company, IFAs, and end-customers.

**Research methods**

A case study research method was employed for this study as it provided the author with a means of investigating a new phenomena which included: “a large range of factors and relationships; no basic laws to determine which factors and relationships are important; and, an opportunity to observe directly the factors and relationships” (Fidel, 1984, p.273). Because of the complexity of the relationship between the collaborative company, IFAs and customers, a case study method is considered as the most appropriate approach to be adopted in this study. More specifically, a retroduction approach is adopted in this research. “Retroduction involves moving from an original conception of a particular phenomenon to a conception of a different kind of thing (power, mechanism) that could have generated the given phenomenon” (Lawson, 1997, p. 236). Based upon the retroductive approach, this research was divided into two stages, exploratory and explanatory stages. The aim of the exploratory research was to gain an understanding about the nature of the long-term savings and investments industry and its offerings and explore the nature of the relationship between the collaborative company and its stakeholders. The sources of data used for the exploratory research were the collaborative company’s market research data aimed at customers and IFAs and six one hour unstructured interviews with company’s senior managers and employees. The exploratory research identified that the majority of the collaborative company’s sales were generated through the IFAs and the IFAs have significant power in the relationship between the collaborative company, the IFAs, and the customers. Therefore, the explanatory research was used to confirm these findings and seek further explanation about the nature of the relationship between the collaborative company, the IFAs, and the customers. The main sources of data used for the explanatory stage were four one hour semi-structured interviews with the collaborative company’s senior managers, nine one hour semi-structured interviews with IFAs, and discussion with customers in the collaborative company’s online community. All of the exploratory and explanatory data were stored and managed using NVivo 9 software and thematic analysis was adopted to analyse the data.

**Summary of research findings and discussion**

Figure 1: The impact of interconnectedness in a triadic relationship



The exploratory research of this study identified the significant role of the IFAs in the triadic relationship. It was highlighted that even though the customers had a strong relationship with the IFAs, they still viewed themselves as the company’s customers and expected an ongoing relationship with the provider. However, IFAs’ protectiveness would not allow this to happen. The relationship between the provider and clients often caused a tension in the relationship between the provider and IFAs. The provider’s recent activity of contacting intermediated customer for updates resulted in a negative publicity in the media. Using Ritter’s (2000) framework, this study attempts to explain the complexity and the nature of the interconnectedness in the relationship between the providers, IFAs and the customers. It is proposed that there are four types of interconnectedness effect that exist in this triadic relationship: synergy effect, lack effect, hindrance effect, and by-pass effect (figure 1). Because of the space limitation this section only highlights the key research findings and discussion.

### Synergy effect (between relationship x and y)

The findings of this study suggested that synergy effect occurs in the relationship between the collaborative company and the IFAs (relationship x) and the relationship between the IFAs and the customers (relationship y). Synergy effect or two-way positive effect means that both relationships support or even necessitate or presuppose each other. Arrow 1 shows that relationship x has a positive effect to the relationship y. In this triadic relationship the IFAs are dependent on the collaborative company in transforming their advice to customers into practice because the collaborative company provides the products that are recommended to the customers. The collaborative company’ senior managers suggested that the company aimed to provide the tools and support needed by the IFAs so that they could increase their efficiency and effectiveness when dealing with the customers. As suggested by Gummesson (2000), the senior managers believed that if the IFAs had a good relationship with the customers because of the collaborative company’s support, it could enhance the relationship between them and the IFAs. Similarly, the interviewed IFAs also emphasised that a strong relationship with providers could ensure the smoothness of their service delivery to customers. Arrow 2 indicates that relationship y has a positive effect to the relationship x. According to the IFAs, if they often used a certain provider’s products or recommend the provider’s product to customers, they would want to maintain a good relationship with this particular provider and expect the provider to update them with the company’s latest offers, products and strategy. If the customers are satisfied with the IFAs’ service and the recommended products, it is more likely that the IFAs will have a positive relationship with customers. Consequently, this relationship will have a positive effect on the relationship between the IFAs and the company.

### Lack effect (between relationship x and z)

The lack effect occurs if both a positive impact and a negative impact coexist in the relationship. Arrow 3 shows that the relationship between the IFAs and the collaborative company (relationship x) enables the relationship between the collaborative company and the customers (relationship z) to happen. In this triadic relationship, the IFAs have a role as the collaborative company’s “introducer” to the customers. This study identified that most of the intermediated customers were “receptive” of IFAs’ recommendations of suitable providers. Furthermore, because of the economic reason, the collaborative company can only provide simplified advice to the end customers, not more complex advice as provided by the IFAs. Thus, it can be concluded that without the IFAs, it is unlikely that the collaborative company can reach the customers who need more complex advice and products. This study found that once the collaborative company was introduced to the customers by the IFAs, the customers would have the opportunity to establish a relationship with the collaborative company. The relationship between the collaborative company and the customers could be initiated when the customers contacted the company directly in order to get further information or enquire about their accounts or when the collaborative company contacted the customers directly in order to get an update about their account or to create sales opportunities. Furthermore, it was identified in this study that customers who were not satisfied with the IFAs’ service were also more likely to seek assurance from the collaborative company or other providers in general by trying to establish a relationship with them. However, as shown in Arrow 4 if the collaborative company reacted to the customers’ request or initiated a movement of enforcing their products to the customers directly (relationship z), it could hinder the relationship between the collaborative company and the IFAs (relationship x). The findings of this study indicated that when the collaborative company or other providers approached the IFAs’ customers without their consent, the IFAs could become suspicious of the collaborative company and accused them of trying to steal their clients. The IFAs’ lack of trust of the collaborative company can result in termination of the relationship and the IFAs could assign all of their customers to a new provider.

***Competition effect (between relationship y and z)***

Competition effect occurs when two relationships weaken or even exclude each other. This effect can occur in a situation where two relationships compete with each other for resources. Arrow 5 shows that the relationship between the IFAs and the customers (relationship y) can hinder the relationship between customers and the providers (relationship z). This negative effect can be greater if the IFAs have a strong relationship with the customers, for instance with the active customers. It was found that because of the economic values that active customers brought to the relationship, the IFAs would be more protective towards these customers and would not hesitate to block any relationship that might happen between the providers and the customers. The interviews with the IFAs suggested that they required the providers to include them in every communication that occurred between the providers and the customers. The findings also indicated that although not to the same degree as the active customers (who have an on-going relationship with IFAs) the IFAs could be protective towards their passive customers or legacy customers (who have a transactional relationship with the IFAs) too. This is because the IFAs may see the opportunity of generating future income through these customers. Approaching the IFAs’ customers directly without the IFAs consent could raise a tension in this triadic relationship, especially between the collaborative company and the IFAs. Arrow 6 shows that the relationship between the collaborative company and the customers (relationship z) can hinder the relationship between the IFAs and the customers. This study found that if either the providers or the customers insisted that they must have a relationship with the providers, other than receiving annual statements, this relationship could weaken the relationship between the IFAs and the customers. If this relationship was developed and the customers became more intimate with the providers, the customers start questioning or cross-checking the IFAs’ recommendations. Therefore, this could weaken the relationship between the IFAs and the customers because the customers would not only consider the IFAs’ advice solely but also that of the collaborative company. The same situation could also apply if the relationship between active customers and the IFAs deteriorated. These customers would be more likely switch to different IFAs or seek information or solutions from the providers.

**By-pass effect**

In order to complete the analysis of the triadic relationship between the collaborative company, IFAs and customers, it is necessary to evaluate the impact of two relationships on the third relationship (Ritter, 2000). By-pass effect occurs when one relationship supports the third relationship whereas the other relationship weakens it. This study identified that by-pass effect occurred in all three combinations of relationship between the collaborative company, IFAs and customers: By-pass effect A (relationship y and z to relationship x); by-pass effect B (relationship x and z to relationship y); and by-pass effect C (relationship x and y to relationship x). The findings indicated that in this intermediated relationship the customers’ relationship was mainly with the IFAs. Therefore, it is expected that there is little relationship between the company and the customers. Nevertheless, the findings also indicated that the relationship between the collaborative company and the customers did not only negatively affect the relationship between the company and the IFAs but also between the customers and the IFAs.

## Conclusion and managerial implication

The evaluation of the triadic relationship between the collaborative company, the IFAs, and the customers indicates that all actors are dependent on each other. Nevertheless, to some extent once the relationship is established, the dependency of the collaborative company and the customers to the IFAs are higher than the dependency of the IFAs to them. Although, it is important for companies to work together with their customers, it is more important for them to work with the IFAs and treat them as they are their best customers, not just as “their” channel to market. This is because the IFAs do not only hold the interface between the collaborative company and the customers but also add value to the company’s offerings and reduce the company’s cost in maintaining the customers. Thus, if the collaborative company insists upon pursuing the passive customers, it is necessary to discuss the plan with the IFAs prior to the implementation and agree on a practice of which will benefit both parties.

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