

**The role of referrals in new client capture within the field of  
independent financial advice**

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## Abstract

**Key words:** Referrals, advisors, clients, word-of-mouth (WOM), recommendation.

The field of regulated financial services has been ill-served by marketing theory. As a consequence: (1) the nature of marketing in this sector has been misunderstood; (2) the key mechanism for generating new business in the field, namely, referrals, has been the subject of serious misapprehension; and, (3) the guidance offered to practitioners has been negligible. In particular, the role of the independent financial advisor (IFA) appears to have been conceptualised as a sales role, and the nature of the relationship between the IFA and the client has been addressed as though it were a straightforward buyer-seller relationship, with the IFA selling products to the client. It is unlikely that these conceptualisations were ever satisfactory and following recent regulatory changes in the sector they have become even less relevant. Since January 1<sup>st</sup> 2013 commission-based selling of financial investment products to consumers has been prohibited so that independent financial advice has become largely a fee-based service.

The focus of this research is on referrals as a method of generating new business; the research context is the UK independent financial advice industry. The objectives of the study are to: (1) define and conceptualise referrals in the context of the financial advice industry; (2) develop a framework of the referral process; (3) provide practitioners with empirical evidence in connection with their embedded beliefs about referrals in this industry; (4) explore whether (as many practitioner believe) it is possible to actively manage referral generation within a financial advice business; and, (5) to investigate the importance of referrals as a means of generating new business for advisors.

It was found that practitioners believe they influence referrals in four main ways: excellent service, higher qualifications, contact frequency and speed of response. However the results of this study clearly indicate that referrals are not the outcome of agency; they are a random occurrence, determined by happenstance and the result of an opportunist conversation between a prospect and a client. In turn, contrary to the

advice of consultancy providers, asking for referrals was found to be ineffective and not welcomed by consumers. While word-of-mouth (WOM) often instigates referral generation, the value of WOM, needs be treated with caution, since consumers were found to have limited understanding of the service provided by independent advisors. Despite the importance consumers attribute to investment performance practitioners do not, commonly, provide investment benchmarks nor do consumers use analytical tools to assess the performance of their advisor. The absence of performance measures connects with the finding that practitioners have difficulty in describing what they do hence consumers are uncertain how to describe the service and what to say about it when asked.

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## **Glossary of terms**

Advisory asset management- client agreement is required for all changes to a portfolio of assets.

Client - Individual with a written agreement that enables the provision of regulated advice

Discretionary asset management- commonly associated with the larger investment houses and stockbroking firms, enabling a portfolio of assets, to be changed, without client approval for each change. Specialist qualifications required.

Do it yourself (DIY) - The act of investing without advice

Financial Conduct Authority (FCA) - The regulator of financial advice

Financial Service Authority (FSA) - Precursor to the FCA

Independent financial advisor (IFA) – Provides regulated advice that is unbiased and unrestricted

Natural referral – A prospect influenced by an existing client to become a client

Prospect – A potential client

Qualified lead – Data suggesting this is an individual who has potential to be a client

Recommendation – The naming of an advisor or firm in a positive manner

Referral Program - A plan of action to generate new clients

Restricted advisor - Restricted by virtue of a reduced range of services/advice

Self-investing -The act of investing without advice (DIY)

Unqualified lead – An individual about whom the potential to be a client is unclear

Word-of-mouth (WOM) - Oral discourse which can be positive/neutral/negative

## Chapter 1- Introduction

Independent financial advisors (IFAs) like members of other professional services, value referrals as an important source of new client acquisition. In an ideal world, financial advisors prefer to attract clients with significant capital and/or income and expectations of further capital or income from inheritances, business sales or bonuses. The complexity of an intangible service and the potential for a deleterious impact from receiving inappropriate advice may go some way to explaining why conventional marketing methods appear to be of limited value this professional sector, and hence why referrals are so highly valued. Despite the importance of referrals to independent financial advisors (IFAs), researchers have paid little attention to this area. This thesis will seek to extend understanding of the factors that influence referral activity from the perspective of both the client and practitioner. The importance of referrals as a tool for new business capture has not previously been explored, in any depth, nor is it clear how or whether IFAs can solicit or manage (obtain) for referrals. A review of the relevant literature has identified factors that are thought to be associated with referral generation, in advisor-client relationships, with pilot surveys and scoping interviews being used to weigh those inputs and the outcomes used to shape both survey and interview questions.

The research reported in this thesis began with an exploratory qualitative approach followed by a structured questionnaire and semi-structured interviews to generate both quantitative and qualitative data. Whilst data are collected from both advisors and clients, unlike previous studies which have tended to focus on data from businesses or advisors, greater weight is given to consumers of financial advice. It is intended that the findings from this research will identify the content that clients say they value from advice and signpost what stimulates them to refer. In turn, it is anticipated the findings will help inform the way financial advisors craft client service proposals and how consumers choose a financial advisor, by illuminating advisor traits that are considered of value to clients. This thesis amalgamates both

practitioner and academic insights into the field of advisor-to-consumer relationships and identifies a number of fresh researchable opportunities. Any new understanding of how referrals are generated and enduring advisor-client relations are developed will be of interest to advisors since the commercial value of any new understanding cannot be overstated.

### 1.1 Iteration - the value of hindsight

It needs to be made clear that the following two pages are a later addition and not part of the original plan, which I believe illustrate the 'iterative...evolving process' of research (Denscombe, 2010:272). One consequence of this reflection is to introduce the selective use of first person narrative which, other than in this chapter, is differentiated by blue text. This modification to the thesis gradually evolved when I began to contemplate the value of the game of chess as a metaphor for the research process and led to the following conjectures. The board itself may be considered the research boundary, fettered by word count and time scales, whilst the pieces represent different methods of approach. Fallen pieces may represent the failed attempt at coherence whilst strategy and tactics are conceived from theoretical frameworks and methodology can draw upon grandmaster plans. Eschewing white for black, taking your opponent's chair, allows reflexive self to consider the intricacies of the strategic and tactical approaches from an entirely different perspective. Subtly reflexive self plays self and notes the limitations of the research strategy from a different outlook. Accordingly, the realisation that a practitioner may have different perspectives from those of an academic led to concerns that insufficient consideration was being given to acknowledging a reader who may be unfamiliar with many of the issues pertinent to this research. What follows is an acknowledgement of a tactical change this research underwent in order to redress the balance.

My role as an IFA has always necessitated my attempting to look through the eyes of my client. Whether I have been successful or not, in this endeavour, only my clients

can judge. In my view it is vital that an advisor seeks to understand a client's objectives, fears, and aspirations both quantitatively and qualitatively. With this in mind, I found myself imagining how the reader would view this work, and what I could do to encourage understanding and interest in my field of research. It seemed reasonable to assume that an academic reader would be unlikely to have the same level of knowledge as a practitioner and might have difficulty connecting with the language of financial advice. I also realised that, as I may be considered expert in my own field, I might have been guilty of assuming I have knowledge in other fields. Stepping back, following the literature review, I realised that my writing could have inadvertently assumed a certain level of understanding which, ironically, is something that I was critical of when reviewing the theoretical corpus. I also realised that, in a futile effort to be objective (Denscombe, 2010), I was consciously attempting to muffle any personal contribution on account of concerns that this would be viewed as being of little value and be deemed self-indulgent. During scoping interviews, however advisors intimated that my experience in client advice, senior management and entrepreneurship, evidenced by the founding, developing and selling of two successful businesses, does represent to them a relatively unique combination of experiences. Heartened by this encouragement, I was conscious that, despite my reservations, my research might benefit from the occasional, direct, insight of an experienced practitioner. I reasoned that the absence of practitioner involvement could be interpreted as not meeting the objectives of a professional doctorate or as being unsympathetic to the reader, and recognised that research which is a collaboration of practice and theory would be of more value (Finlay, 2002). In turn, this led to concerns that the requirements of the Doctorate of Business Administration (DBA), to provide a contribution to practice, could be compromised in the absence of practitioner input. This led me to conclude that the relatively limited prior knowledge in this field afforded an opportunity to contribute personal knowledge to an underreported field. Therefore to counter concerns that a DBA is lessened without practitioner input and hopefully to provide a richer, more informative narrative, this thesis will periodically include personal, reflective, anecdotal contributions consciously written in the first person, using **blue text**, and are indented in order to distinguish them from the third person narrative. The aim is utilise two voices, one from a senior practitioner in the field with experience of managing



advisory practices, the other to provide a personal interpretation of the issues as they arise.

Further reflection and observation may be found in Appendices 1 to 7. This chapter now reverts to third person narrative and continues with an introduction to financial advice followed by the aims set for the research

## 1.2. Origins of the research

Recognising the potential for biased reporting in a research study of this kind, and acknowledging that a preference for quantitative analysis is inherent in the very topic of financial planning, this seems an appropriate juncture at which to discuss the influence of the researcher's own experiences, following the methodological advice of Denscombe (2010: 302) to 'come clean' about the likely influences of a researcher's background. What follows is therefore a thumbnail sketch of the origins of this thesis and the relevant experience of its author. Also recognising the potential for bias inherent in the researcher's omnipotent role in interpreting research findings, it is appropriate to disclose that the author is a Chartered Fellow of the Securities & Investment Institute (FCSI), Chartered Financial Planner (APFS) and Certified Financial Planner (CFP) and discharges a pro-bono role as an examination assessor for the Institute of Financial Planning. As he has relevant experience of referrals in the context of operating a financial advisory practice, it may be helpful to provide the reader with a brief summary of the historical foundations of the research.

Following six years in the Royal Air Force, teaching physical education and jumping out of aeroplanes, an unexpected opportunity arose to join the technical training department of a quoted institutional investment company. A fascination with investment led to promotion and six years in the investment department, which in turn, fuelled the desire to establish and develop an independent financial advice practice. The firm grew rapidly, becoming one of the first independent advice firms in

the UK to be authorised to manage assets on a discretionary basis (more commonly a practice of the larger investment houses and stockbroking firms, enabling a portfolio of assets, to be altered, without the need for client approval for each change) but that growth posed many challenges, as the managing of increasingly large staff numbers and client funds demanded sensitive handling. Founding and developing a business affords a reservoir of experiences which employees are unlikely to encounter in that, whilst responsibility for motivating staff and meeting corporate targets can be shared by many, both are overshadowed by the constant concern of sourcing new clients. Indeed it was the perpetual challenge of capturing new business that provided the impetus for this research

I have founded (without partnership or assistance), developed and sold two independent financial advice practices, one by an MBO and another via a trade sale. While many practitioners have personally founded practices it is relatively unusual to not only establish but also develop, negotiate and complete the sale of two businesses. Indeed my own experience indicates that doing so, especially when the business in question is formally regulated, is one of the most difficult challenges entrepreneurs in this field will face. Arguably these experiences equip me to comment with some degree of authority on the challenges advisors confront when attempting to grow a business that others wish to buy.

When I started my own practice, knowledge was harder to come by as the internet had not arrived and client valuations took days not seconds. I had never previously been self-employed and the challenges of setting up a business, without any support or help, added to my pressures, mainly because I had not factored in the associated non-professional requirements. I was undoubtedly motivated by the fear of failure particularly as I was aware that my ex-colleagues would be monitoring my progress. I was also concerned about leaving behind a company car, share options and the security that comes with a corporate salary. However my fears soon abated as my income rose relative to my previous salaried role. One reassuringly

bright spot, perhaps crucial for an emerging business, was that finding my own clients through a combination of networking and seminars seemed relatively straight forward.

I started my practice alone, but I quickly realised that it would be essential to recruit client-facing staff, ideally with their own clients and a competent administration team if I wanted to build a sustainable practice that could eventually be sold. Attracting successful advisors with an established client following and persuading them to join a fledging operation proved to be problematic. Attention therefore turned to recruiting less established advisors, who tended not to have a meaningful client base, which necessitated sourcing a continuing flow of prospective clients. Indeed, as the number of advisors grew finding new clients became the defining factor in determining the success or failure of the practice.

Over the past 30 years I have explored every conceivable marketing strategy including: advertising, local and national; mailings, mail drops and hand drops; seminars; buying and renting lists and leads, employing lead generation consultants; business lunches and breakfast networking, sports sponsorship including professional football and squash clubs; distribution of promotional items; billboards, speaking at events for accountants and lawyers, rotary and lions club, ladies' circles, corporate resettlement courses and so on; writing articles for magazines and journals; appearances on national radio; forging commercial links with accountancy and law firms; and utilising equity for influence. A conscious decision was made to practice from a ground-floor office that had once been a large retail shop office in a busy city high street, on route to a main line rail station, in an effort to raise brand awareness and encourage passers-by to walk in. It was a surprise when a partner working for a top four law firm did walk in! Naturally some marketing strategies were more effective than others but it was referrals, influenced by recommendations from existing clients, which really made the difference.

This thesis has its immediate origins during a board meeting, at my own firm in 2005 when senior client-facing staff declared themselves unable (or perhaps unwilling) to self-generate client enquiries and instead preferred to rely on enquiries provided by the firm. This led to a sense of frustration for my management team that new business capture therefore depended on the networking activities of a few on behalf of the many. The commitment to provide a continuous flow of prospective clients for client-facing staff consumed an inordinate amount of management time and was undoubtedly a factor in the decision that led the author to dispose of the majority shareholding and fulfil the dreams of a nascent entrepreneur. Having shouldered the burden of finding clients for the practice, the sense of relief was palpable.

Fortunately a new opportunity emerged to become CEO of one of the largest, by turnover, independent advisory firms, in the UK, which involved managing almost a hundred employees, including chartered accountants and chartered financial advisors. The clients of the firm were drawn from the equity partners of the 'magic circle' law firms and larger accountancy practices in London. All these past and current managerial experiences have highlighted the difficulties that firms experience with new client capture.

With the benefit of hindsight it was noticeable that whatever the size of the practice and despite the use of various incentives arrangements, a common concern for managers was that very few advisors were able to generate referrals. A clear pattern had emerged indicating that referral generation is challenging and not a gift that all advisors possess. In turn this aroused curiosity as to why some advisors are more successful referral generators than others and stimulated the desire to learn more about the antecedents of referral generation. Whilst acknowledging the results of the research study are derived from financial advisors, it has been observed that more than a hundred studies investigating differences in the performance of salespeople have found no single behavioural or other factor to be significant (Churchill & Szymanski 1990). In this context, the expectations for the research conducted for this thesis are understandably modest, although it is noteworthy that this earlier research focused on relationships from the perspective of the salesperson rather

than clients as this research does. Whether or not advisor-client relationships are likely to be the same as industrial salesperson-customer relationships in a conventional market setting is debatable and so, despite the absence of any significant findings in the Churchill & Szymanski study, it is expected that new insights will be generated that can contribute to knowledge.

This finding raises the possibility that, once a client base has been established and a level of recurring income achieved, a firm can survive and grow without a referral generator. This would seem to fit with the findings of Smith & Miner (1983) who suggested that creating an organisation requires entrepreneurship whereas once it is established that need diminishes. This may also indicate that referrals are of more importance to start ups than established businesses, since the latter are able to derive new fees from existing clients. The proportion of new fees derived from referrals and existing clients may help to answer this question. It should be noted that new businesses are often carved out from existing firms by departing client-facing staff seeking to transfer existing client relationships to their own enterprise. In turn, emergent entrepreneurs planning to exit may elect to defer actualisation of the potential of referrals until they are of personal value. Finally the possibility that business owners are more motivated, to find new work, than employees cannot be overlooked.

With hindsight, I reflected that I knew little about the origins of referrals. I began reviewing the various theories proposed by alleged referral gurus, practitioners and marketers, and found difficulty in connecting these ideas with my own experiences. Consequently, I realised that, after thirty years of handling, seeking and obtaining referrals, I was well placed to begin my own academic study into the antecedents of referrals.

These disclosures are essential in that they allow any reader to assess the claims and judgements made in this study with respect to partiality and objectiveness. Objectivity supports impartiality and invites a researcher to avoid overlooking data

that do not seem to fit and investigating conflicting explanations (Denscombe, 2010). 2010). Data are at the core of research, as is the exploration of relevant theory which now follows.

### 1.3. Introducing financial advice

In the absence of any readily available definition for the role of an IFA, this section will instead draw upon a thematic paper produced by the Financial Services Authority (FSA), predecessor of the current regulator, the Financial Conduct Authority (FCA). The FSA conceptualises advice as comprising the eight steps summarised in the table below.

Table 1.1. The advice process

<b>Step 1</b>	Engagement-explain importance of money matters & the need to take action
<b>Step 2</b>	Establish the reason the client has come to seek advice
<b>Step 3</b>	Gather relevant data from client (Fact finding)
<b>Step 4</b>	Establish client current financial position, aspirations and goals
<b>Step 5</b>	Identify priorities and options for the client to consider
<b>Step 6</b>	Identify, if appropriate, product types that might meet client needs
<b>Step 7</b>	Recommend a particular product type
<b>Step 8</b>	Identify a specific product to buy, hold or sell

*Adapted from:* Financial Capability: developing the role of generic advice (FSA, 2005:6).

It is noteworthy that the regulatory focus is on financial products, not advice, whereas advisors would view the management of assets and the reviewing of past advice as crucial elements in the advice process. The focus on product sales is reinforced by other governmental agencies, such as the Money Advice Service (MAS), who consider financial advice to be a process that begins with fact finding and concludes with a recommendation usually involving the purchase of a product. The MAS website describes 'non-advised sales' as being based on 'information' and 'advised sales' as connected with a product which may result in a claim for 'mis-selling' ([www.moneyadvice.service.org.uk/en](http://www.moneyadvice.service.org.uk/en), 2014). It also states that, if consumers do not want to take responsibility for their 'bad investing decisions', they can transfer their concern by taking advice. It appears that this governmental body wishes financial advisors to be responsible for decisions that ultimately rest with consumers, thus effectively supporting a culture of compensation. As the website clearly says: 'You have rights if a product turns out to be unsuitable' (MAS, 2014).

The focus on products appears to suggest that all financial advice culminates in a product sale. Indeed this is what defines regulated advice since financial advice that does not involve the sale of product is not regulated. Consequently tax advice, cash flow planning, risk profiling and all discussions that fall short of a product recommendation are not deemed financial advice by the regulator. My own experience is that the majority of advice is unregulated and that it is within the diagnostic process that the true value of advice may be found. It is arguable that product selection is the least intellectually demanding element of the advice process and it is often dealt with by electronic decision-making systems.

Financial advisory firms are knowledge-based occupations and, like many such, have a lexicon barely penetrable to the non-practitioner. Consequently, interpreting the language and setting the scene around which the research was conceived may be of value to the reader. The Financial Conduct Authority (FCA), a quasi-governmental regulatory body which replaced the FSA in 2013, elected to employ the term 'independent' and 'restricted' to distinguish between the two main channels for distributing advice. Independent advice is defined as that which

conducts a comprehensive analysis of the relevant market and is characterised as providing unbiased and unrestricted advice (FSA, 2011). By contrast restricted advice is limited often to one product provider or organisation. According to the Association of British Insurers (2104) the majority of financial services product sold are reportedly by IFAs, rather than all other advice channels, (typically banks, insurance and investment companies), so it may be hypothesised that consumers favour independent over restricted advice. However despite the disparities between the advice models it is thought likely that consumers' understanding of the differences will prove to be imprecise. Whether financial advice firms are restricted or independent, despite the majority practising as sole traders or small enterprises (FSA, 2010), it is likely they all share a common desire to increase turnover whilst harbouring ambitions to eventually sell the practice. Micro and small enterprises are defined according to their staff headcount and turnover or annual balance-sheet total. The European Union website (Europa, 2014) defines a small enterprise 'as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million. A microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million'.

Increasing turnover is a product of rising fee income and retaining clients is consequently considered essential for the long term success of any client-focused organisation, particularly as the cost of acquiring new clients is said to be higher than retaining existing ones (Reichheld, 2003). Reichheld and Sasser (1990:105) claim that 'by retaining 5% more of their customers' companies can increase profits by approaching 100%' and that profit per customer rises the longer a customer remains with a firm. However, as they describe their data as being based on 'our experience of many industries' (Reichheld & Sasser, 1990:108) the relevance of this research, for a service like financial advice, characterised as a 'credence good' (Darby & Karni, 1973:68), where the consumer has less knowledge than the service provider (Eraut, 1994), may be questionable.



## 1.4 The personal financial advice sector

According to the Association of Professional Financial Advisers (APFA): ‘40% of investment and protection products are sold through financial advisers, with annual revenue estimated at £3.8 billion (£2.2 billion from investment business, £1.2 billion from general insurance and £400 million from mortgages) ... Over 50% of the population rank financial advisers as one of their top three most trusted sources of advice about money matters. As such, financial advisers represent a leading force in the maintenance of a competitive and dynamic retail financial services market’ (APFA, 2013). The regulation of financial services is a matter of great political, social and economic importance that has become even more prominent in the wake of regulatory scandals such as the alleged mis-selling of payment protection insurance and personal pensions.

Financial advice makes a significant contribution to the UK economy, as confirmed by recent data estimates that ‘over 160,000 active individuals participate in financial advice’ (Spectrum Data Management, 2013). It is estimated that the UK long-term savings and investment industry has assets of £2.7 trillion making it a mainstay of UK economic life yet, despite IFAs accounting for 80% of sales, academic studies of their modus operandi are rare (Tjandra et al, 2013).

## 1.5 Financial advice and referrals

Financial advisors operate commercial enterprises largely comprising three regulated individuals or fewer (FSA, 2010) and do not have the financial resources to embark upon the type of marketing campaigns available to larger institutions, needing instead to rely on referrals to obtain new business (Pickersgill, 2013). By and large advisory firms do not have advertising budgets or ‘the direct brand recognition to approach the retail public directly’ (Sittampalam, 2013:5). It is therefore crucial for advisors to build enduring relationships with satisfied clients,

who in turn will refer prospective clients particularly given that research indicates that word-of-mouth can influence behaviour more than other marketing methods (Buttle, 1998). Other researchers who support this claim indicate that it is the most important source of new business acquisition for financial advisors (Blue & Green, 2013).

The lifeblood of financial advisor operations is clients and sourcing new clients is therefore of paramount importance. Since an absence of referrals is thought to seriously undermine the success of an enterprise this thesis addresses an issue of considerable importance to practitioners. Financial services products are often difficult for consumers to understand (Gaskell & Ashton, 2008) because they are likely to lack the knowledge required to evaluate the service or product until many years after the purchase. Potential consumers thus have difficulty in determining whether they need advice or what type of advice is appropriate, and in evaluating whether the advice given was suitable or not has to be deferred until a future date (Clarke, 1999). It is therefore understandable if consumers are cautious when selecting a financial advisor since the value of the advice provided usually cannot be assessed for many years.

Financial advisors prefer long term clients rather than transactional, or fleeting, relationships since they wish to provide new services to existing clients over time. Intense competition exists to identify and capture new clients and for most advisors a recommendation from an existing client is highly prized. All firms would prefer to employ client-facing staff who can stimulate clients to introduce prospective clients. However as advisors have difficulty in obtaining referrals (Bradshaw, 2010) learning more about which advisor behaviours appear to be successful in generating referrals would be greatly valued by all professional service organisations. Indeed this thesis hypothesises that the propensity for clients to refer could be considered as part of the benchmark for assessing the quality of advisor–client relations, particularly since the absence of referrals is material in distinguishing between the success and failure of both individuals and firms. This hypothesis garners support when it is noted that the willingness to recommend is considered a guide to future relationships and

revenue (Reichheld, 2003). This view is also supported by Knemeyer and Murphy (2005:8) who claim that referrals are the 'ultimate test' of a service relationship. This thesis will consider whether a positive causal connection exists between a sustainable advisor-client relationship and the likelihood of referrals while acknowledging that referrals could also emerge in other circumstances.

Understanding more of the factors that generate referrals would be greatly valued by financial advisory firms and especially welcome should they be able to operationalize the factors to garner more referrals. Given that it is unclear how important referrals are to firms, this thesis also aims to learn more about the contribution they make to the success or failure of firms. Although anecdotal support for the importance of referrals, came in a recent blog by an IFA, who noted that '99% of his new business comes from referrals' (Citywire, 2013), crucially it is uncertain whether or not firms can manage for referrals, that is can they consciously set out to attract new clients by inducing referrals; and, if so, what methods are successful? This thesis will later argue that word-of-mouth is not the same as a referral and find support for this position from scholars who have conceded that it is not within in the 'control' of the service providers, which suggests that managing for referrals may also be challenging (Ennew et al, 2000:75).

While many IFAs are sole traders there are enterprises who elect to practice as corporate entities or in partnerships.

Whether the size of a firm influences referral generation is unclear. Where firms have more than one advisor it is uncertain whether referrals are directed at the individual or the firm. When a firm employs a number of advisors they will usually be required, to meet compliance obligations, to present a common client proposition reflecting the way the firm deals with its clients. Therefore, in such circumstances, the conclusion might be that the personal attributes of the advisor, who does generate referrals, may be a factor in referral generation although luck is likely to play a more significant role.

IFAs are seeking close, long term, relationships with clients who have resources or needs that require advice and who are willing to pay fees. Consumers with significant investment capital are highly sought after, as the fees clients pay are often based on a percentage of the capital invested. Sourcing high-value consumers for financial practitioners, is problematic and it is my professional experience that conventional marketing methods that enjoy success in other fields are relatively ineffective when it comes to capturing new clients for financial advisory firms. Wealthy consumers are understandably cautious when selecting an advisor and my experience is that they are reluctant to respond to such forms of marketing communication as direct mail or advertising. When founding my own business in the early 1980s, I found marketing seminars to be a successful method of attracting new clients, perhaps in part due to the limited availability of investment knowledge or information technology and the relatively novel nature of such seminars at that time. Utilising the technique to build an advisory practice, seemed a natural extension of my military experience one which was centred on presenting information and coaching to both groups and individuals. During my corporate career, my presentational skills matured as a result of delivering press launches and facilitating training programs in inter personal skills. However, when by the early 1990s it became evident that new, well resourced, entrants had also realised the potential of seminars. As a consequence, the increasing numbers of seminar providers, growing cynicism among investors (many of who were facing losses following the boom years of the early 1980s), wider dissemination of investment knowledge that became possible with the arrival of the internet, all combined to gradually reduce the effectiveness of seminars. I found initially that mailing 10,000 households, produced approximately 200 respondents, roughly 140 attendees, and approximately 30 new clients within 18 months. Over time I experimented with many different lists including shareholder registers but found postcode selection to be more reliable in terms of eliciting attendance. As more advisory firms gained the confidence and knowledge to operate in this field, the supply of seminars increased, which resulted in the need to greatly increase the numbers of households mailed, until a point was reached, at which seminar marketing was no longer economic. In 1985, the cost of arranging a seminar

ranged from £6,000 to £10,000, (modest in today's terms but more significant then) and depended on the size of the mailing list rented or bought, the venue, postal charges, refreshments, printing, stationery and most importantly, the time spent in folding and sealing thousands of envelopes. While the list owners had machinery to prepare and send the mailings the additional cost could not be justified. It often took two weeks to prepare mailings for one seminar, sometimes requiring the employment of temporary staff, necessitating withdrawal of staff from other duties, involving the formation of a production line around a boardroom table stacked high with address labels, envelopes, seminar invitations and importantly moisture for dry tongues! I did investigate the cost of purchasing equipment, to mechanise and streamline our process, but fortunately prevaricated long enough to reach the realisation that seminars would not be as effective in the future and consequently saved the company a small fortune.

The internet has provided a vehicle through which investors who wish to learn more about financial advice or self-investment in order to bypass paid for financial advice. This has in turn accentuated the importance of referrals to IFAs as it is widely believed that referrals are a key source of new business acquisition. The importance of referrals to services has been reinforced by Engel et al (1995) who claimed that, in marketing, referrals are matchless. Their importance to all IFAs is likely to increase if reports are correct that the number of self-investors (DIY investors) has risen significantly since the Retail Distribution Review (RDR) (Budworth, 2014). It is questionable, however, if that whether that report is wholly accurate as the evidence cited in support of the finding is based on the increase in the value of investment funds from 2012 to 2013. Further examination is required since, arguably, an increase in world stock markets is likely to have more impact than investor numbers. It is noted that the financial services industry appears more interested than other industries or groups in forming customer relationships (Barnes, 1997). Although this thesis will focus on the relationships between IFAs and their clients, it will also take account of those in other services who market intangible goods.

## 1.6 Regulatory issues

The Financial Conduct Authority (FCA) introduced the Retail Distribution Review (RDR) at the start of 2013, a new regulatory framework governing the distribution of financial advice. Given the significance of this review but recognising that not all readers will be well versed in the domain of financial advice, a brief overview of the regulatory changes now follows.

In June 2006 the FSA, predecessor of the FCA, began the process of planning for the RDR following what they described as 'persistent problems we had observed...in over 21 years of regulation... insufficient consumer trust and confidence in the products and services' (FSA, 2010). In doing so, it was following a well-trodden path of increasing government regulation to limit the 'deviant performance' of professionals, which had been observable since the 1960s (Freidson, 1984:3). At its formal introduction in 2013, the RDR banned advisors and product providers from accepting or paying commission. Practitioners have since argued that the loss of commission and increased regulatory burdens will threaten the existence of small IFAs, which, if so could magnify the importance of referrals (Foster, 2012). These concerns over falling numbers appear to be justified by data from the FCA indicating that they were 25% higher prior to RDR (Hannant, 2013). A second feature of the Review was the introduction of a new and higher minimum level qualification, required to act as a regulated advisor, 35 hours per year of mandatory continuous professional development (CPD) and the requirement for an annual statement of professional standing (SPS) to be issued by a professional body.

## 1.7 Professional bodies

Although IFAs have a veritable cornucopia of professional bodies to choose from none acts as a trade body or is exclusively focused on restricted or independent advisors. Each of the three largest professional bodies are competing for members

and arguing its case to be the examination and training provider of choice, which prompted Gaskell & Ashton (2008) to assert that competition between professional bodies and the regulatory process have acted in concert to exert a negative impact on efforts to increase advisor professionalism. This view is supported by Clarke (1999) who stressed the importance of having a single professional body. The present unwillingness of the various professional bodies to clarify whether independent or restricted advice is the preferred distribution vehicle may also be stifling progression toward professionalism. It is noteworthy that the reluctance of the regulator and established professional bodies to view independent advice as preferable to restricted advice, is in marked contrast to the expressed opinions of consumer interest groups, such as Which?, who openly state a preference for independent advice over restricted advice channels (Which?, 2010).

In 2006, The Privy Council of England and Wales declared that the Chartered Insurance Institute (CII) may award the designation of Chartered Financial Planner whether an advisor is independent or restricted. Accordingly the availability of Chartered status, whilst helpful, does not distinguish between advisor distribution channels and may encourage consumer confusion. For practitioners, already holding higher professional qualifications, including Chartered Financial Planner and Certified Financial Planner (CFP), introducing examinations for the higher-level minimum qualification has had no impact. The decision by the FCA to set a relatively low educational entry level has surprised many commentators. In a survey conducted by Pedley (2009), 158 MPs expressed surprise that their examination standard does not stand comparison with related professions such as accountancy and law, where higher qualifications are the norm. This approach also appears to be at odds with the FCA mission statement, which is to improve the standard of advice. Whether advisors with higher qualifications generate more referrals is uncertain, as clients clearly have an expectation that all advisors will have appropriate qualifications.

Consciousness of the potential for biased reporting and awareness that the practice of financial advice is embedded with a preference for quantitative information the

next section seeks to acknowledge these concerns.

## 1.8. Aims of the research

Acknowledging the professional requirements of the DBA, the research in this thesis investigates referrals from both an academic and practitioner perspective. It seeks to learn more about the factors which make referrals from existing clients more likely, thus filling a gap in academic knowledge, which largely ignores referrals, and contributing to the practice of client management in the field of financial advice. The academic element of the research considers the factors affecting referrals in client-advisor relationships; the focus of the practitioner element is on what firms and individual advisors can do to generate more referrals. The aim is to provide fresh insight for IFAs and practice managers into referral generation whilst at the same time challenging a number of embedded assumptions that circulate within the sector. It is anticipated that by targeting different audiences, with related questions, contrasting contributions will be provoked for the research to explore. The proposition is that referrals are of significant value to smaller firms so this research aims to learn more of how and why they are generated. The literature is in general agreement that the success of smaller service firms, such as financial advice providers, is dependent upon recommendations and satisfied clients who repurchase (Bryson et al, 1993). The suggestion is that important differences exist between small and large firms and that referrals are an under-exploited method of generating new business. This focus of this thesis is mostly but not exclusively on firms with up to ten client facing staff, as it is assumed that data relating to the interaction between individual IFAs and their clients will be richer than that collected from larger firms, where client relationships are likely to be more prescribed, and that access is likely to be easier. Although this level of staffing may seem modest in commercial terms, it should be noted that recent research has found the average independent financial practice to comprise four regulated IFAs (Lee, 2014) and that firms with four or more regulated advisors may be considered large within the advisory community. The research began with an exploratory qualitative approach, utilising scoping interviews,



and progressed to a structured questionnaire followed by interviews, to generate both quantitative and qualitative data.

The research was thus undertaken with the aim of extending knowledge in which answers to a number of questions may be found: Can referrals be managed for? Why do clients refer or not refer? How important are referrals to firms? Are the embedded beliefs held by practitioners about referrals justifiable? What are the factors that prospective clients consider when selecting an advisor? It is hoped that the findings will help practitioners to understand what works and what does not work with respect to referrals, and thereby contribute to the body of knowledge by explaining the role and importance of referrals in the context of a 'credence service' (Darby & Karni, 1973:68), such as financial advice.

In order to establish the boundaries for the research, because referrals are interpreted differently in other domains, this chapter will lastly propose a definition for referrals that connects with custom and practice in the field of financial advice.

## 1.9 Defining referrals

The term 'referral' is firmly established in the medical literature where it is used to indicate the seeking of a further opinion usually from a specialist in a particular field (Mondofacto, 2013). For practitioners of financial advice, however, it has an entirely different meaning being used to describe a process that leads to the capture of a new client. Despite the vital importance of referrals it is claimed that researchers have devoted 'little attention' to relationships that generate them (Boles et al, 1997:254). Authors have sought to quantify the value of referrals in monetary terms in order to expose the contribution they make to the success of a firm (Helm, 2003). However when Helm concludes that doing so will stimulate firms to engage with referral strategies she fails to explain what methods are known to be successful. The limited number of authors exploring referrals in other contexts emphasises the

limitations of academic research in this field; a view that is reinforced by Ryu and Feick (2007:84) who, despite a wide search, found 'almost no empirical work'.

The absence of empirical research became explicit as searches for 'referrals' in the Journal of Service Marketing yielded no results and 'financial advice' only seventeen. The Journal of Personal Selling and Sales Management, Journal of Marketing and the Journal of Marketing Management collectively delivered one result from 1994. Numerous studies have been devoted to buyer-seller relationships including: salesperson skills and performance (Johlke, 2006); the attributes of successful salespeople (Churchill & Szymanski, 1990); sales prospecting (Jolson & Wotruba, 1992); the practice of personal selling and sales management (Weitz & Bradford, 1999); and the sales process (Jolson, 1997). By contrast there is a noticeable absence of literature relating to advice and advisor-client relationships. This finding was reinforced when online journal searches via the Hertfordshire University Studynet for any connection to financial advice produced no returns while sales or selling journal searches produced 38 results.

Researchers often suggest that word-of-mouth is a proxy for referrals (Helm, 2003; Kumar et al, 2010; Ryu & Feick, 2007) without acknowledging that, however positive, it does not necessarily result in a referral. This thesis will later argue that the act of referral is not only different from but also more significant than positive word-of-mouth. For clarity, it will focus on individual referrals not introductions to or from an organisation, which may be driven by brand attraction or be instigated for commercial advantage rather than the action of an individual. Broadly following the definition advocated by Kumar et al (2010), for the purposes of this thesis, a referral is defined as occurring when an existing client (not a professional connection) motivates a prospective client to visit an advisor who acts for the introducer, and subsequently becomes a client. Unlike other studies (Kumar et al, 2010; Ryu & Feick, 2007), however, this thesis does not consider the completion of a transaction to be the defining element of a referral preferring to separate any commercial activity from the act of referral. The completion of a referral is dependent upon a prospective client accepting the service proposition offered by a financial advisor, after which the

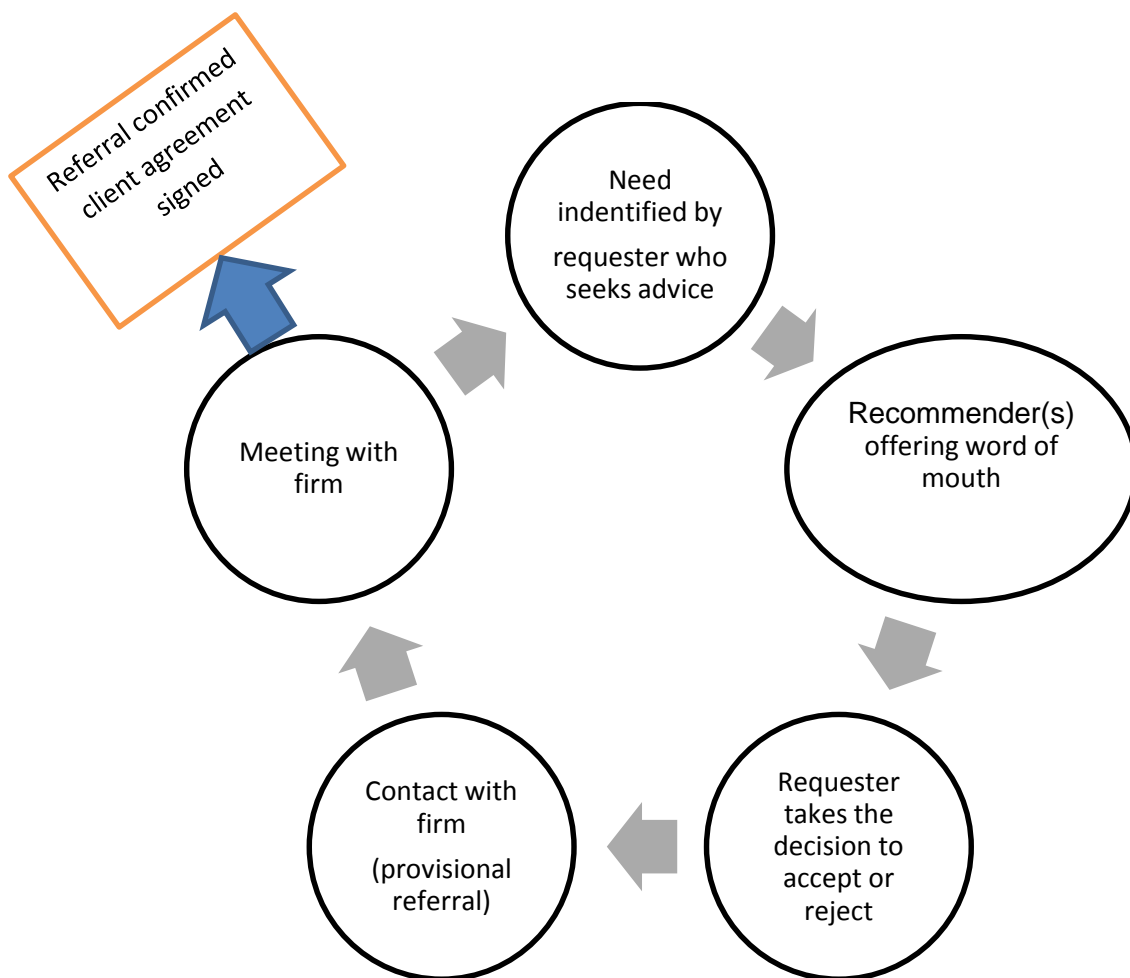
prospective client can be regarded as a client of the advisor firm. This argument is further strengthened by the fact that the connection between a transaction and commission has been severed by the FCA under the terms of the RDR, with the consequence that a transaction does not have to take place for an advisor to generate fee income. Indeed, before that change in 2013 many IFAs operated on a fee basis completely unconnected to a product transaction.

Formulating an authoritative definition of a referral in the context of this study is clearly a challenging task, given the limited relevant literature. What does seem clear is that a potential referral cannot be manifest until a prospective client meets with a firm. It is arguable that all discourse before a meeting may be considered as word-of-mouth exchanges which may or may not lead to a referral, since it is likely that the firm remains unaware of such informal preliminary exchanges. The referral therefore occurs when a formal meeting takes place between prospective client and an IFA, which leads to a contractual agreement between the parties. In other words, a referral either becomes a client or reverts to the status of prospective client. This view also gains some support from a description of the process of referral as an 'act or instance of directing... to another professional or service' (Collins, 2013). A limitation of this definition is that it focuses on direction, rather than requiring a meeting to have taken place, since no firm would be aware that a referral has been made or can be substantiated, without a formal meeting, unless the client making the referral had disclosed the potential.

Despite the difficulties that arise when devising definitions of multifaceted constructs, this thesis presents an alternative approach by proposing that a referral is a multi-step process: first, a need is identified by a 'requester' who interacts with an existing client to seek out advice, second, a recommender provides positive word-of-mouth, who also may deem that a recommendation has been made; third, the requester, who is now the recipient of advice decides whether to act upon it, or seek more advice; fourth, the target service or firm is approached, by either requester or recommender, to discuss arranging a meeting. That fourth step may be described, as a provisional referral, ahead of a fifth and final step at which a meeting takes

place between the requester and the firm. This sequential process is depicted in Figure 1.1. When proposing this blueprint for a revised definition this thesis does not view a referral as stemming from a single act but rather as a construct that is episodic, interactive in character and not certain in outcome. It should be acknowledged that this thesis is presenting a definition which posits that a natural referral occurs without reward or inducement and accepts that such conceptualisation may be challenged.

Figure 1.1. Referrals - The sequence of causation



This thesis extends the definition of a referral, by drawing upon Ryu and Feick (2007:85), by utilising the prefix 'natural' to describe a referral that is not induced by reward or influenced by an advisor request, and treats those which are induced as introductions, since they are likely to have been prompted by fee sharing or promises of reciprocity. Lastly, it is argued that referrals in professional services, like independent advice, are only manifest when a contract and fee agreement is signed, and are not necessarily dependent on a transaction or product sale.

Another consideration is that requesters may seek a recommendation from more than one existing client. How prospective clients select a recommendation source is unclear although one obvious option is to seek out persons known to utilise an IFA, or believed are likely to. One possibility is therefore that new consumers of financial advice will seek out experienced investors for guidance. The nature of the recommendation that requesters act upon may provide a guide to what is valued in an advisor relationship. This information would be of significant interest to firms as an input to the shaping of client service propositions. It remains uncertain whether cognitive or affective factors are of more importance and if one particular phrase, expression or description is more influential than others. It is possible that a recommendation from an existing client may be deemed to be self-serving and that requesters might prefer generic guidance without the perceived influence of an advisor firm.

Although the literature suggests that introductions can be stimulated by 'reward programs' (Ryu & Feick, 2007:84), for advisors such programs could come into conflict with the regulatory concept of 'treating customers fairly', and any introduction would inevitably be treated as an 'unqualified' lead, given the advisor would need to determine if the prospect is a suitable client, can afford advisor fees, and, importantly, requires advice (FCA, 2013). On the one hand, it is likely that prospective clients (requesters) only seek a recommendation only when they perceive a financial need; on the other, IFAs view financial advice as an evolving process, requiring regular review, and are likely to argue that consumers should not wait until they foresee a need. Clients do not seem to share this view which perhaps

emphasises the credence (Darby & Karni, 1973) characteristics of financial advice. From the advisor's perspective it is a lack understanding, of the benefits to be derived from regular advice, which prevents consumers from requesting advice before they perceive a need. The resulting difficulty that IFAs find in creating demand reinforces the value of a natural referral.

I recall my surprise at the number of occasions a seminar attendee would telephone me, as many as seven years after an event, and say 'You won't remember me but...', and would then become a client. Perhaps this reinforces the proposition that consumers wait until they perceive a need before acting.

To summarise, a natural referral occurs when an existing client provides positive word-of-mouth and a recommendation to a requester, a potential client, who in turn arranges a meeting with an advisory firm and decides to become a client of the firm. If an advisor does influence an existing client to provide a name this is often viewed as an 'unqualified' prospect, since that client is unlikely to know whether the prospect would be a suitable client, could afford advisor fees or would be interested in being the recipient of advice. At this stage this conceptualisation of the referral process can be considered as foundational in nature as it is likely that during data collection a clearer picture of the referral process will emerge. The conceptualisation of the referral process in this chapter is intended to be read before the descriptions of the findings of data collection in later chapters. It will nevertheless be useful to offer a preliminary working definition of 'natural referral', as follows: *'the process in which an existing client of an independent financial advisor communicates positive word-of-mouth and a clear recommendation to a prospective client, who arranges a meeting with the IFA and, ultimately, becomes a new client'*.

Having presented a working conceptualisation of the referrals process, the next chapter will explain how the literature review was constructed and provide a synopsis of what studies relevant to the topic of the thesis have to say about the antecedents of referrals.

## Chapter 2 - Mapping the literature

This chapter outlines the process adopted to organise and execute the review of the relevant literature, which explores the work of practitioners, consultants and academics who are working in the field.

The review process has shown that this thesis is one of the first empirical studies to explore the advisor-client relationship in the context of independent financial advice services since the Retail Distribution Review of 2013. The banning of commission represents a significant change for financial advisors and consumers. This change provides an opportunity for a new body of literature to emerge that recognises the clear distinctions between sales and advice processes, particularly now that commission incentives, which feature heavily in existing sales literature, are no longer a feature of financial advice. Understandably this does mean that existing literature has not had the opportunity to consider whether differences exist in the advisor-client relationship with this new perspective.

This chapter will draw upon contributions to the literature by a wide range of academics with an interest in financial advisory services and by participants in the sector, on the subject of client referrals and the aspects of client-advisor relationships that may have an impact upon them. The literature reviewed straddles many decades, concluding with the particularly relevant studies and commentaries of the past decade. Greater weight is given to the more recent studies to demonstrate subject relevance, and awareness of financial services and the regulatory environment. Selected works, based on the number of citations in the case of academic studies and amount of exposure for practitioner contributions, include those that are deemed influential by many subsequent authors, with particular care being taken to embrace a wide range of author orientation.

## 2.1 Organising the literature

Identifying literature that relates to the specific topic of this thesis has proven to be a challenge, since scholars have argued that little academic work has specifically addressed how advisor-client relationships can be developed in a way that will lead to client referrals (Boles et al, 1997; Connors, 1998). Others, specialising in the field of financial services, go further lamenting the 'relative lack of empirical research in financial planning' (Hunt et al, 2010:82). The review process started from an assumption that a considerable body of academic literature within the financial and professional service community would have reported on advisor-client relationships and referrals. However it was found that material on client-advisor relationships was readily available from peer reviewed publications in the USA, such as the *Journal of Financial Planning* or *Financial Planning*, or UK publications such as *The Journal of the Chartered Institute for Securities & Investment*, *Financial Planner*, *The Journal of the CII* and *Financial Solutions* a publication from the *Personal Finance Society*. Although distinguished academic contributors could be found (Dubofsky & Sussman; 2010; Grubman & Jaffe; 2011; Yeske, 2010) they were in the minority.

What on the surface, appeared to be relevant material, on closer inspection was often found to be written with an understandable commercial purpose (Bowen et al, 2008; *Trusted Advisor*, 2012; Weatherill, 2012). It was often observed that when references were provided by practitioners they usually referred to members of the same professional body, as the authors, while the writing appeared overtly promotional in nature and overly supportive of the professional body behind the journal. These findings led to an overwhelming sense that commercial advantage may be influencing the writing. The impression gained was that this body of literature promotes largely experienced-based, unsupported, anecdotal assumptions and is characterised by an absence of academic referencing or peer review. Quantitative surveys were often cited, as in the case of the assertion by Weatherill (2012:22) that empathy is the key ingredient in building trust supported by both numerical proof and a 'proven methodology'. The validity of these findings has been challenged by other authors (Dawson et al, 1992; McBane, 1995) who find the relationship between



empathy and behaviour to be unproven. However Weitz (1981) does provide limited support when suggesting empathic advisors may be more successful, although it is also noted that a study of service performance by Parasuraman et al (1988) found that empathy had the lowest influence on satisfaction of five factors tested.

These preliminary findings helped devise a strategy for a more thorough literature review, in which a wider range of voices could enhance the claims of this study to 'credibility' (Bryman, 2008:377). This led the thesis to also consider texts from scholars connected with financial advice and it was interesting to discover that financial planners, who also hold academic positions, have a tendency to reference fellow planners rather than fellow academics (Yeske, 2010). Whilst the failure to reference sources outside the sector probably reflects the limited nature of the research, other forces may be at work, including the desire to build professional credibility when it is recognised that financial advice lacks an unambiguous body of knowledge (Geistfield, 2005).

Whilst it was felt that little solidly grounded literature offering rigorous academic reporting, was likely to emerge from the practitioner literature, it would be inappropriate to consciously discount this body of work as they have relevant experience of the study question and disregarding their far from impartial views could lead to a biased literature review. This led the thesis to ensure that both academic and practitioner voices could be heard.

Concern over partial reporting also led to the consideration of contributions from organisations seeking financial gain from the promotion of methods they deem capable of generating referrals. Searches unearthed numerous websites, articles and books on new-business generation. While the nature of the output from these non-academic sources is difficult to gauge, some IFAs do purchase referral programs and utilise consultancy services, so their contribution requires acknowledgment and is deserving of review. Recognising the particular orientation of

these sources, their output is defined as 'commercial literature' and included as the first element of the literature review.

In light of the above four distinct groups of literature emerged from the searches: first, commercial literature; second, 'practitioner literature', from sources writing in practitioner journals or connected to the financial services industry, who predominantly reference other industry participants; third, 'professional literature', authors with connections or interest in financial services who employ external referencing and whose self-interest is less overt; and fourth, 'academic literature', consisting of refereed articles or books by academics independent of financial services. (The academic literature will be further categorised into five discrete groupings in Chapter 3). This juxtaposition of different views, embracing different disciplines, will allow contrasts and comparisons to be made whilst staying within the boundaries of the study. Lastly, the findings from all sources are synthesised to explore whether or not any common themes or patterns can be discerned. This approach is justified as it is unlikely that any single approach has been operationalised successfully, although more evidential weight could possibly be given to successful advisors as they have commercial imperatives to meet or failure will follow. Table 2.1 now summarises the sequence that the literature review process followed.

Table 2.1 The sequence of the review process

<b>Review sequence</b>	<b>Focus</b>	<b>Topics</b>
<b>Commercial Literature</b>	Commercial contributions	Promotional in nature. What works Advisor-client relationships
<b>Practitioner Literature</b>	Practitioner contributions - mainly internal referencing	Connected to or working in financial services. What works Advisor-client relationships
<b>Professional Literature</b>	Mixture of external and internal referencing	Associated to financial planning or advice. Communication Advisor-client relationships
<b>Academic Literature</b>	1. Marketing of services 2. Relationship marketing (trust and perception) 3. Client retention 4. Word-of-mouth 5. Sales effectiveness & prospecting	Theoretical assumptions. Services and goods marketing Relationship marketing Why clients refer When clients refer Role of word-of-mouth

The next section explores the contributions of organisations and individuals who market services connected to the generation of referrals. While the contention of this thesis is that referrals cannot be solicited, others believe that they can. Their work is therefore reviewed briefly

## 2.2 The commercial literature

During the searches for texts, connected to financial advice and referral generation, a large body of non-academic work was discovered that initially appeared to offer fertile grounds for investigation. The demand from IFAs for proven methods that are successful in generating referrals has led to a plethora of consultants offering advisors the opportunity to purchase a wide variety of applications claimed to be capable of generating referrals. Given the number of consultancy firms operating in this field and noting the exposure they enjoy within industry publications it is evident that IFAs are purchasing consultancy services and referral systems. When a commercial organisation offers advice on referral generation, it is usually provided in writing and accompanied by a request for payment. In order to distinguish commercial contributions, from published work originating from practitioners this thesis elects to define the former as 'commercial literature'. The communication channels favoured by the marketers of referral programmes are subjective books and websites. A common feature of referral offers is that they all claim some degree of positive outcome for IFAs. However despite these claims it is noted that independent corroboration of the success of their methods is largely absent.

The recurring message from commercial organisations is that referrals fail to materialise on account of a failure to ask for them and because IFA service propositions are not attractive enough to attract new clients. A potential weakness in this argument is that advisor service propositions are not usually disclosed, in any detail, until a meeting is arranged between the parties. Consequently, prospective clients can only make a superficial judgement about an advisory firm from any marketing material that is available. A further weakness in this position is that it appears to overlook the possibility that affective issues, like similarity and social skills may also influence advisor selection because, while a published client proposition can provide a guide to the expected service, they are inert and cannot interact with a prospective client. These concerns are supported by Barnes (1997:765) and Sharma and Paterson (1999) who concluded that cognitive factors are less influential than 'affective variables' in relationships and therefore appear to support a negative

response to the claims of commercial literature. If these authors (Barnes, 1997: Sharma & Paterson, 1999) are right, the notion that prospects base advisor selection solely on a client proposition is rendered extremely unlikely, since it appears improbable that a prospect could gauge interpersonal factors from an arm's length viewing of a client proposition. A significant weakness that seems to be rooted in commercial thinking is that clients can be influenced to seek out and source referrals.

However my experience is that referrals are not instigated by clients. Instead, clients respond to a request for information, acting as conduit between the requester and the advisor. It would seem very unlikely that clients would actively seek out new clients for an advisor, though it has to be acknowledged that some clients may be advocates when the opportunity arises.

From an academic perspective, a major drawback of the strategies presented by commercial enterprises is that they are usually drawn from the personal accounts of advisors or based on an author's opinion. While anecdotal evidence is of value, the arguments presented would be more convincing if the claims were based on empirical research that was available to the reader. The methods are frequently described as 'secret' or 'proven' with testimonial support that successful referral generation is a direct consequence of consultancy provided by the author (Billingham, 2013:1). When exploring the rationale behind the assertions of success, it was noted that the claims are derived from clients of the consultant. Other authors claim that following their coaching of IFAs, they have understood 'the most important question to ask' clients (Allison, 2013), but do not explain how coaching an advisor connects with understanding clients. Allison also contends that clients want advisors to ask for referrals more frequently and suggests that this will stimulate referral generation. A common theme amongst consultants is that referrals can be easily obtained, simply by asking for them; once you have the necessary skills that coaching can provide (Anderson, 2012). However, Ferguson (1996) appears to challenge this contention, in asserting that professionals have a 'natural reluctance to sell', and that many would therefore be disinclined to ask for a referral. The

credibility of Ferguson' reasoning that the reluctance to engage in selling-related activities is explained by a fear of failure would be enhanced if had he provided data to support it.

It was found that commercial contributors rarely provide any formal academic references and the bibliography is often drawn from autobiographical sources. Auditing the success or otherwise of these programmes is problematic, however, whilst commercial participants' do not readily take account of academic work, failing to take their views into account can lead to biased reporting. Table 2.2 presents a cross-section of the findings that emerged from easily-sourced commercial offerings of referral and consultancy programmes

Table 2.2 Commercial referral advocacies

Source	Advocacy
<b>Dan Allison</b> <a href="http://www.focusedadvisor.com/">http://www.focusedadvisor.com/</a>	Referrals will occur more frequently if five components are in place.
<b>The Referral Coach</b> <a href="http://www.marketingplanfinancialadvisor.com/referrals.html">http://www.marketingplanfinancialadvisor.com/referrals.html</a>	7 step system Asking is important. Solutions mainly utilise various linguistic catch phrases.
<b>The Financial Adviser Coach.</b> <a href="http://financialadvisercoach.com/2012/11/19/fix-your-prospecting">http://financialadvisercoach.com/2012/11/19/fix-your-prospecting</a>	'Look the part'. Know your stuff. Plan'. 'If you do something good for someone they feel obliged to do something good for you'.
<a href="http://www.citywire.co.uk/adviser">www.citywire.co.uk/adviser</a> <b>Beveridge-Head of Wholesale Sales Standard Life investment (Citywire, 2013:42)</b>	'Existing clients will always refer new contacts if they feel the service they are receiving is good'.

<a href="http://referralchampions.com/">http://referralchampions.com/</a>	'A self-study system guaranteed to produce results'. '10 strategies to jump-start your client acquisition'.
<a href="http://www.raintoday.com/authors/mary-flaherty/">http://www.raintoday.com/authors/mary-flaherty/</a>	'25 Ways to get Referrals-Be referable'.
<a href="http://www.financial-planning.com/ows_issues/23_4/the-grand-slam-referral-system-2683846-1.html">http://www.financial-planning.com/ows_issues/23_4/the-grand-slam-referral-system-2683846-1.html</a>	'Even if you asked them a few months ago and they said they didn't know anyone, don't assume that the same is true today'.
<b>Billingham (2013) <i>Professional Partners Success Blueprint</i>, Amazon</b>	'Proven strategy based on a step by step framework'.
<b>Anderson (2012) '<i>Fearless referrals</i>'</b>	Asking in the right way leads to results.
<a href="http://citywire.co.uk/new-model-adviser/brett-davidson-how-small-ifas-can-prosper">http://citywire.co.uk/new-model-adviser/brett-davidson-how-small-ifas-can-prosper</a>	'Impress clients sufficiently for them to refer'.

The sense is that commercial operations believe that referral generation can be managed for, provided advisors have or acquire appropriate interpersonal skills, cultivate persistence and above all, ask for referrals in the right way. A common factor in almost all commercial arguments is an absence of empirical grounding; with the exception of one contrarian voice who, with the benefit of an advisor survey, concluded that asking for referrals is unlikely to work (Littlechild, 2010). Those who are engaged in commercial activities do not appear to have experience of founding or operating successful IFA practices and appear to draw their arguments chiefly from the personal accounts of others, their personal experience as consultants or from other fields. Examination of the career background of consultants, regularly referenced by industry media and professional bodies, found none who was currently in practice or who could be identified as previously managing a successful advisory practice. A common feature of commercial enterprises is that peer review and independent verification of the value of referral programs is absent. In the absence of evidence that clients have indeed provided referrals, the potential user has to

depend on the author's opinion or anecdotal evidence to judge the merits of each programme.

If referral programs are successful, then perhaps their creators should apply this knowledge to create their own professional practice, as then, the success, or otherwise, of their methods could be judged. The absence of an empirical foundation to the output of commercial enterprises, who advocate that referrals may be generated by following a process centred upon asking for referrals, requires caution in interpreting their findings, especially since advisors who have used such methods have experienced mixed results (Hall, 2012).

### 2.3. The practitioner literature

Financial advisors in the UK are not at the forefront of communications or literature, even within their own professional journals or magazines. The majority of those journals or magazines, aimed at practitioners, are normally edited and controlled by such professional bodies as the Chartered Insurance Institute (CII), the Institute of Financial Planning (IFP) and the Chartered Securities and Investment Institute (CSI). Their contributors are therefore typically drawn from the ranks of employees of professional bodies, external consultants, fund managers and investment company representatives, who express opinions on advisor-client relationships without the benefit of any substantive experience of managing an advisory practice. At issue is that advisor professional journals are not academic in nature, contributions are not peer reviewed and academic contributions do not appear to be encouraged.

From an IFA perspective, the sense is that journals published and supported by professional bodies, who garner support from institutional investment houses and life assurance companies, wish to control their messages in order to cultivate and reinforce the perception that they are an essential base of knowledge for advisors. Professional bodies derive their income from examination entry, training and



membership fees and therefore arguably they have an interest encouraging regulatory changes that result in changes to be made to their professional examinations and training programmes. In turn, they may be motivated to channel regulatory messages into stimulating advisors to attend seminars, which are invariably facilitated by non-advisors. As professional bodies are managed by administrators, who are not practitioners, it is unsurprising that advisors have little influence over the content. This connects with the absence of a single representative body for independent financial advisors, and the reluctance of professional journals to encourage academic contributions, be they from advisors or academics, which in turn may be responsible for stifling practitioner and academic discussion in this field. Evidence of a practitioner-academic disconnect has also been noted by researchers in the marketing field who have observed a reluctance to collaborate despite the significant mutual benefits that are likely to accrue (Baines & Brennan, 2008).

Where external contributions are published, the discourse is dominated by those described as 'consultants', with a clear commercial purpose, or by the self-reported views of advisors seeking publicity to enhance their brand. Notwithstanding the manifest limitations of these professional journals, however, this thesis has been illuminated by the considered voices to be heard within the domain, and the intellectual contributions from practising IFAs, occasionally supported by academic contributions.

For clarity searches for relevant practitioner literature was not limited to domestic output; American, European and Australian sources have also been utilised. One example from America, which was the result of a collaboration between a financial planner and an academic, surveyed 'current and potential clients' to determine what consumers are seeking from both an advisor and an advisory firm (Sung & Sandager, 1997:9). This study was selected as it evaluates what consumers are looking for based on a survey of consumer preferences. It would seem logical to expect that the attributes consumers look for in an individual advisor might be similar to those that encourage referral provision. Given this article is co-authored by a

financial planner and concerns financial planning it may be helpful at this stage to explain the differences between a financial planner and a financial advisor.

All regulated financial advisors are required to operate within guidelines laid down by the FCA which now distinguishes between independent (the provision of unbiased and unrestricted advice by an IFA) and restricted (by virtue of reduced range of services/advice) advice. Only IFAs can describe themselves as independent and they usually style themselves as financial planners or financial advisors. To distinguish themselves from IFAs restricted advisors have to make both an oral and written disclosure explaining how their service is restricted. Financial planners tend to utilise a lifetime cash flow forecast, as part of a comprehensive financial plan, and follow a six step process advocated by the institute of financial planning (IFP). The IFP define financial planning as 'the process of developing strategies to assist clients in managing their financial affairs to meet life goals' (IFP, 2014:6). By contrast, IFAs, who are not IFP members, are more likely to focus on solutions, producing client reports they deem appropriate, foregoing the need for a cash flow unless requested.

Confusingly for consumers, a limited number of advisors, including the author of this thesis, are qualified by professional examination to use the designations Certified Financial Planner and Chartered Financial Planner neither of which are determinants of regulatory independence. It should be noted that unlike other countries, notably Australia, there is no statutory name protection in the UK therefore any financial advisor can describe themselves as a financial planner without having passed the qualification prescribed by the IFP. While financial planner and IFA are the most widely used trading styles, advisors are free to adopt other titles, including; 'wealth manager', 'financial coach', 'stockbroker', 'tax & estate planner'. Therefore it would not be a surprise if consumers found advisor selection confusing. In summary independent advice may only be provided by an IFA and restricted advisors cannot describe themselves as independent.

To illustrate the self-interest that appears to be embedded in practitioner literature, Sandager (1997) is a Certified Financial Planner (CFP) whose article concludes by supporting the tenets of the Institute of Financial Planning the governing body for CFPs. That financial planners have a tendency to offer unqualified support to the six-step process of financial planning advocated by the Institute is evidenced by the conclusions arrived at by Sharpe et al (2007) and Sung and Sandager (1997:15) that 'potential clients' prefer to receive advice from a Certified Financial Planner. This is a claim that can be challenged, however as it would be very unusual for an uninitiated consumer to know the differences between a Certified Financial Planner and an IFA. There is uncertainty about the data source used by Sung and Sandager (1997:9), given the survey is first said to be 'targeted at current and potential clients' but two pages later it is described as being directed at 'three groups of potential clients' which may explain why '47% of respondents had not used a financial planner' and by extrapolation 53% have (Sung & Sandager, 1997:11). If over half the respondents were already using a financial planner it is unclear how they can be described as 'prospective clients'. A further potential weakness is that the survey was developed to 'discover opinions', without no provision for open-ended answers, yet the authors argue that attitudinal responses will emanate from prospects and experience flow from existing clients in an ordinal data collection process.

In a similar manner Sharpe et al (2007), a blend of practitioners and academics, choose to test hypotheses of trust and provide support for the practices advocated by the Institute of Financial Planning. This study mirrors the research of Sung and Sandager (1997) which also highlights the importance of trust in client-planner relationships, in that it correspondingly fails to indicate clearly how trust may be enhanced in practical terms. Other writers magnify the importance of trust by claiming that clients who trust their advisors will be prepared to introduce prospective clients although it is not explained how this knowledge can influence introductions (Sharpe et al, 2007; Weatherill, 2012).

Individual practitioner contributions to the literature, as broadly defined, can be found in news media and may be characterised as anecdotal. For example, Smith (2013)

describes prospects (potential clients) as being in the process of seeking advisors who are different whilst Beveridge (2013) argues that existing clients are certain to refer if the service they receive is appropriate. Perhaps in recognition that directly asking for a referral is ineffective, other advisors maintain that doing so in a circuitous may have merit (Wershing, 2013). However a drawback in this approach is the presumption that existing clients are prepared to provide a recommendation without waiting for a request, from a friend, colleague or relative. While these opinions are unsupported, they do appear to represent, a widely-held belief, that the quality of advisor-client relationship will have a bearing on the propensity to refer.

The absence in the practitioner literature of any consideration of the antecedents of referral provided the impetus for an examination of the factors that practitioners consider to be important in building sustainable advisor-client relationships, which may influence referrals. The findings from this review will then be contrasted and compared with those that emerge from other reviews. Table 2.3 summarises the factors derived from the practitioner literature where mainly internal referencing was evident.

Table 2.3. Factors identified in the practitioner literature.

<b>Author</b>	<b>Factors</b>
<b>Anderson and Sharpe (2008)</b>	Communicating using the six steps advocated by CFPs can lead to improved trust.
<b>Beverland et al (2007)</b>	Proactivity leads to stronger relationships and is found to be a driver of client satisfaction.
<b>Bowen et al (2009)</b>	Deliver a service proposition clients value
<b>Dubofsky and Sussman (2010)</b>	Bonding can be measured by two questions: those related to executor and emergency contact.

<b>Grubman and Jaffe (2011)</b>	Superior communication enhances client satisfaction.
<b>Pompian (2008)</b>	Use behavioural finance investor types to recognise cognitive and emotional biases and thus build stronger relationships.
<b>Sussman and Dubofsky (2009)</b>	Advisors should be trained in life/planning coaching and acknowledge emotional intelligence.
<b>Van Zupthen (2012)</b>	Interpersonal skills are more important than technical knowledge. Communication prevents complaints.
<b>Weatherill (2012)</b>	Empathy is the most important driver of trust.
<b>Yeske (2010)</b>	A framework is needed to test the activities of advisors.

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The impression drawn from the practitioner literature is that interpersonal skills, trust, engagement and communication methods are considered key factors, in advisor/client relationships, whilst empathy was notable but featured less often. As many of the authors offered unreserved support for Institute of Financial Planning and predominately cited other practitioners, there is a concern that the findings may be compromised. The absence of more critical review it likely to lead an independent reviewer to consider the possibility that reinforcing Institute policy may be expected from authors and encouraged by the journal.

## 2.4 The professional literature

The review of the commercial and practitioner literature led to the conclusion that validity would be enhanced by directing a second search toward occupationally focused literature, where conclusions are drawn from a wide range of authors, references are included from outside the financial sphere, and no overt commercial focus is apparent. A number of practitioner orientated, unranked, refereed journals, such as the *Journal of Personal Finance*, affiliated with financial associations in the USA, were found, however, the content was not deemed suitable as the contributions were mainly technical in nature. The literature that was selected came from a diverse range of opinion and professional backgrounds having undergone a screening process to ensure external referencing was evident. An exemplar is offered by Hunt et al, (2010) who identify seven factors that influence adviser/client relationships many of which reinforce the findings of the authors who utilised internal referencing. Echoing the findings from the practitioner and commercial literature Christiansen and DeVaney (1998:7) acknowledge that 'good communication' develops trust without defining what 'good' means in this context. One interesting finding that did emerge from their study is that interpersonal skills are essential to developing advisor-client relationships, which may go some way to explaining why some advisors are more successful at referrals than others. Table 2.4 summarises the professional literature.

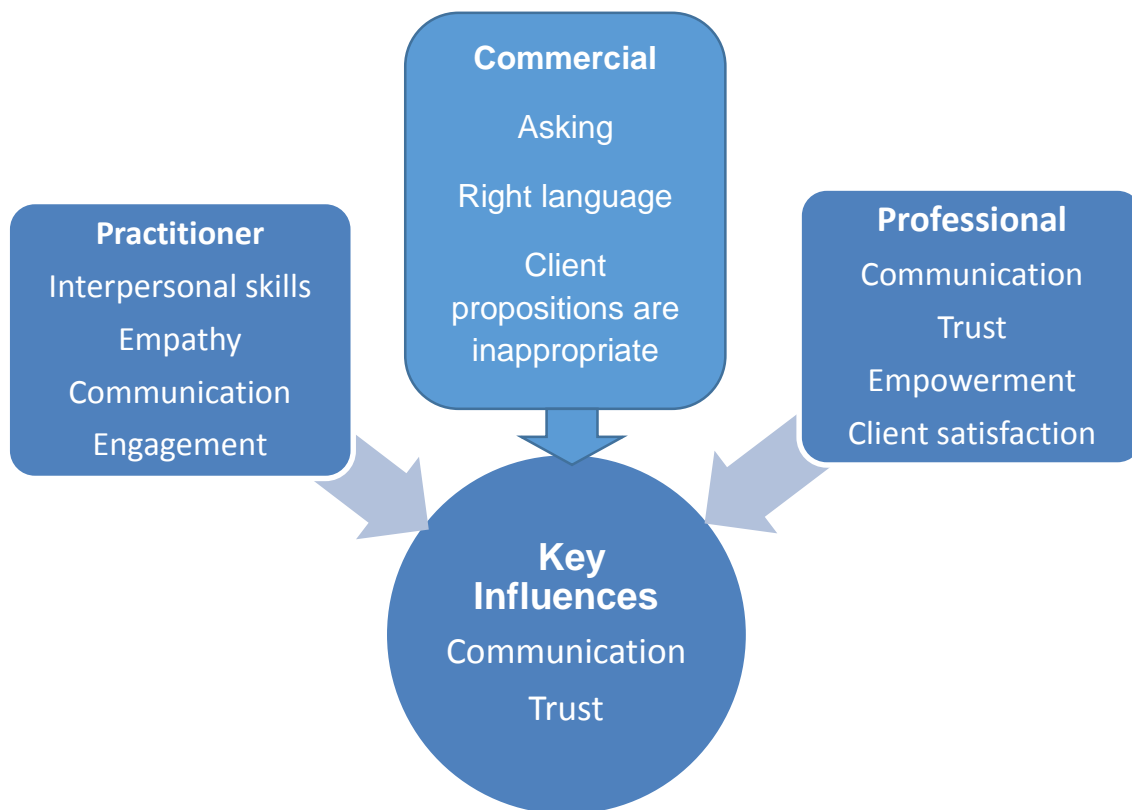
Table 2.4. Factors identified in the professional literature

<b>Author</b>	<b>Factors</b>
<b>Christiansen and De Vaney (1998)</b>	Adopt programmes to improve communication skills of planner as interpersonal skills need developing.
<b>Halstead et al (2008)</b>	Key to retention is the quality of advisor-client relationship. Advisors need high regard for investors.
<b>Hayhoe (2001)</b>	Need to understand client goals and dreams
<b>Hunt et al (2010)</b>	Advisors overestimate levels of trust and commitment in clients and underestimate client empowerment. Trust found to be critical.
<b>Nofsinger and Varma (2007)</b>	Understanding how your client learns can shape communication.
<b>Olsen and Riepe (2010)</b>	Understanding how client behaviour influences decision making.
<b>Pullen and Rizkalla (2003)</b>	Create a family mission statement. Engage in public speaking; explain complex issues concisely.
<b>Spatafore (1998)</b>	Communication is the foundation of trust.

When standing back from the financial service literature, it can be observed that trust, communication, empowerment and client satisfaction figure prominently and are deemed key factors in building enduring adviser/client relationships. Whilst other factors do emerge, such as understanding client goals, they do not occur with the same frequency. One issue that appears to be common to all the studies is that they are almost entirely focused on relationships with existing clients rather than the sourcing of new clients. Whilst the factors that sustain relationships may also be influential, in stimulating existing clients to refer, authors appear reluctant to consider

that different factors may be at play. No literature could be found that deals with managing for referrals or explains why some advisors are more successful than others at referral generation. Figure 2.1 summarises the findings from the commercial, practitioner and professional writings in a diagrammatic form. The same format will be used with respect to the academic literature in the next Chapter.

Figure 2.1. Map of the territory summarising the commercial, practitioner and professional literature





## 2.5. Conclusion

The boundaries for the first three literature reviews were influenced by the difficulty found in locating relevant literature. It is nevertheless suggested that the validity of the review may have been enhanced by the inclusion of input from authors unconnected with financial services, who have explored relationship factors in a generic sense. Therefore this thesis now justifies exploring texts, from academics outside financial services, who have investigated the factors that are considered to influence enduring relationships in a commercial context that may connect with referral generation. The resulting review was predisposed towards more recent literature, which enjoys significant citation, while recognising that numerous citation does not imply a consensus. Attention now turns to the conventional academic literature.

## Chapter 3 - Academic literature

Chapter 2 having explored writing concerning referral generation originating with practitioners and professionals, this chapter extends the literature review to include academic work. The purpose of this chapter is to inform the thesis and provide a contribution to the theoretical framework underpinning the research approach.

### 3.1 Mapping the academic literature

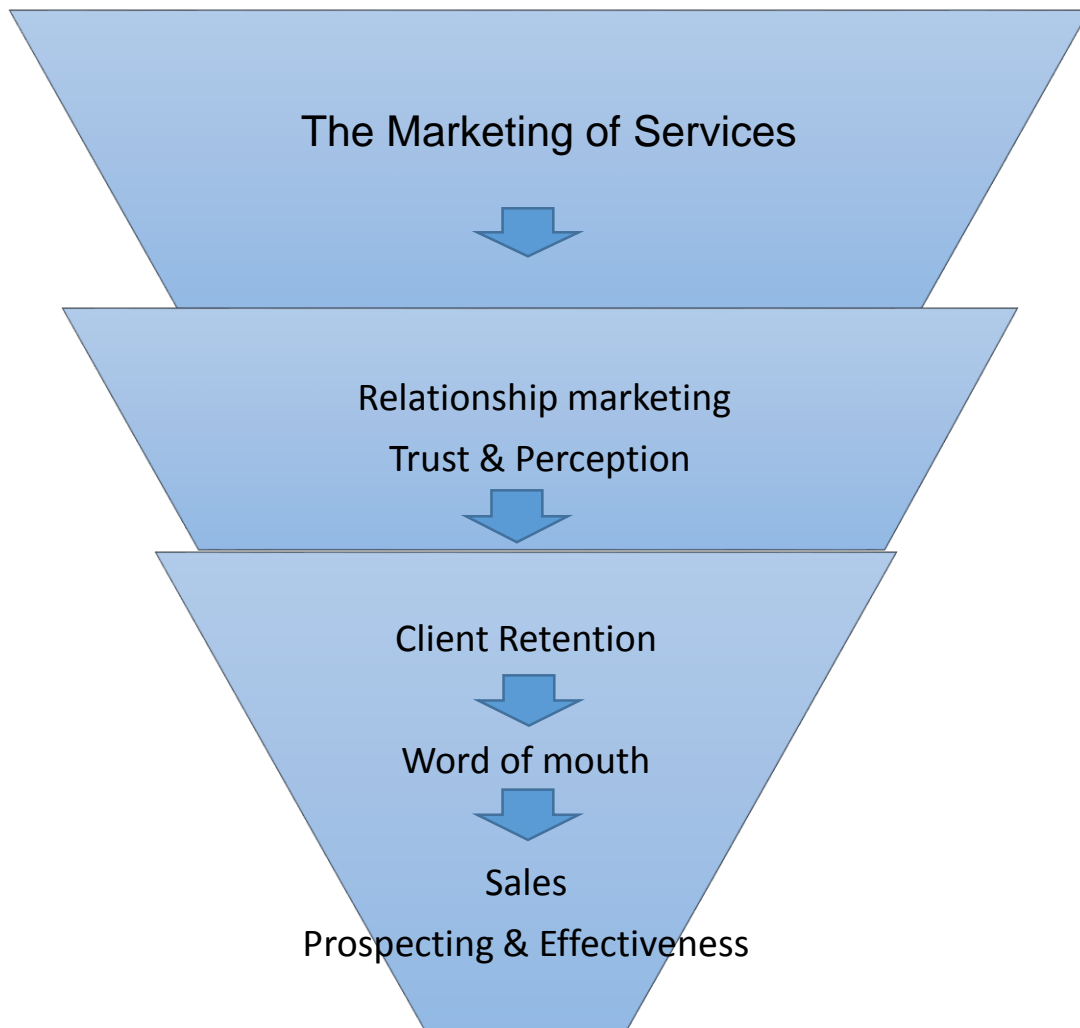
The academic element of the literature review begins in earnest by explaining how the review was conceived. Having failed to find relevant peer reviewed literature, to the thesis, within the financial and professional service communities, a new direction for the literature search was required. To confront this lack of substantial primary sources, reading was extended into related disciplines in the expectation that valuable contributors could be found. Texts were uncovered that did address issues connected with this study, but it was observed that they often view relationships from the perspective of the firm or supplier, rather than the client. This finding led to the conclusion that identifying a diverse range of literature will be important, to reduce the prospect of one-sided views dominating the research (Barnes, 1997). This in turn this led to the development of search categories where the focus was orientated toward studies that utilised data from clients, rather than firms or advisors, which allowing for extended reading likely to be of interest for financial practitioners. However searches for relevant words including 'client (s)', 'referral (s)', 'refer', 'recommendation (s)', and 'financial advisor' were not as fruitful as expected, further confirming the absence of literature directly related to the thesis.

Eventually five discrete groups of academic literature emerged that appeared to offer a measure of connectivity with the study topics: those related to the marketing of services, commercial and individual relationships, client retention, and word-of-

mouth, plus limited contributions from sales management journals. This approach allowed voices with differing views and from various disciplines to be heard, encouraging a collaboration of diverse ideas, whilst not straying outside the boundaries of the study.

The approach to the task of reviewing was to interrogate the designated literature with the objective of: identifying relevant definitions and key themes within marketing literature; seeking out texts of relevance to new business capture within financial services literature; and finally to investigate relationship marketing literature where it connects with trust, commitment and customer relationships. From this broad, macro search, the literature review then narrowed to embrace literature deemed closer to the aims of the thesis. This led to the utilisation of literature from authors who focus on word-of-mouth and sales effectiveness, as their contributions appeared to offer the likelihood of positive correlation to the research in the absence of literature on advice and referrals per se. Finally, the contributions from the practitioner and professional literature will be brought back into consideration. Figure 3.1 presents a diagrammatic representation academic literature review process.

### 3.1. Diagrammatic representation of the academic literature review process



The Association of Business Schools (ABS) Journal Guide (Marketing, Entrepreneurship and General Management) was used to identify publications of likely interest. The searches within the domain of marketing began with Grade Four journals and incorporated contributions from those ranked Grade Three to Grade One. It was originally planned to include contributions from within psychological, sociological and business literature however, preliminary investigations, suggested that this body of work was not as relevant to the thesis as the foregoing. One finding that did emerge from the early search process was that the terminology used in academic literature will be unfamiliar to most practitioners. Therefore, before the literature review is fully engaged this chapter devotes attention to issues concerning nomenclature.

### 3.2. The issue of nomenclature

This thesis was introduced by noting the language difficulties that readers may encounter when dealing with financial advice. From the practitioner perspective, a similar linguistic concern arises in the marketing literature. For example it was found that the literature commonly uses 'financial services' as terminology to describe any activity connected with monetary transactions. Indeed Ennew et al (2000:79) suggests financial services embraces 'banking, credit cards, savings, investments etc'. This appears to be a particularly broad definition when considering a high street bank and small firm of financial advisors have little in common. Indeed, it would seem more logical to use 'banking' to describe banking activities reserving 'financial services' for non-banking financial transactions. It was also noted that, when seeking to understand the nature of service relationships, the literature appears to favour drawing of data from large global financial firms, often banking organisations, despite smaller financial firms representing the majority of firms in the sector (Beckett et al, 2000; Bhattacharya et al, 2012; Söderberg, 2013). Other scholars reinforce these concerns by arguing that the literature on services marketing has been narrowly focused upon banking and consequently has led to underreporting of other service firms in the financial sector (Zeithaml et al, 1985).

A confusion of terminology permeates most the literature when dealing with financial services, as even industry participants cannot agree whether to describe the provision of independent financial advice as a profession, industry, occupation, trade or business. For example, Pedley (2009:194:198) when referring to a report on professionalism, argues for an 'industry consensus' and suggests that a campaign by the Chartered Insurance Institute has raised levels of professionalism closer to that of 'traditional' professions'. A weakness in Pedley's approach is that he offers little or no guidance as to what is meant by professionalism and provides no evidence for the alleged increased professionalism.

Another issue of nomenclature is the lack of clarity over what distinguishes a 'customer' from a 'client'. Financial advisors develop long term client relationships yet the literature devoted to relationship marketing describes that as being with a customer (Barnes, 1994; Berry, 1994; Reichheld & Sasser, 1990). More recently, Sharma and Patterson (1999:151) have observed, that financial planning has credence characteristics and that 'customers' consequently find it a service that is hard to evaluate, yet they replace 'customer' with 'client' discussing the 'credence properties' of financial planning. In the real world financial advisors would find difficulty in relating to this loose use of language, as they envisage clear differences between a customer and a client. In their vocabulary, the former term relates to a transactional relationship commonly associated with a product sale and the latter a longer-term partnership of mutual benefit. Concerns over language have also been highlighted by authors exploring the relevance of academic research for marketing purposes, who note both the absence of action plans and the use of complex, pretentious and jargon-filled language (Ankers & Brennan, 2002).

A further finding, accentuating the difficulty this investigation has found in identifying relevant literature, is that little attention has been paid to exploring the differences between selling and advice, in the context of professional services, even within practitioner literature. This is surprising, given the clarion call for enhanced professionalism evident in the regulatory narrative. One recent study into the distribution of advice in the wake of the RDR has considered the question and concluded that a 'clear distinction' needs to be made 'between advising and selling' (Niemeyer & Thorun, 2012:16). However, they appear to misunderstand the nature of the commission ban, since fees agreed with clients can be paid via a product provider or directly by the client. It also seems that Niemeyer and Thorun have failed to grasp that it is the range of advice that determines independence, not the way fees are paid. Given the complexity of the issues, it is not unusual to find this level of misunderstanding and it should be acknowledged that this particular contribution to the literature was published before RDR was implemented.

Confirmation that advisors face an uphill challenge to change the perception that advice is merely part of the sales process is reinforced by Hohenschwert (2012:145), who claims that providing advice is one of four roles that salespeople provide 'during their work'. While advice may feature in selling, the salesperson's overriding objective is the sale of a product. It is unclear how this can be reconciled with independent advice, which is not dependent on a product being sold, given that the salesperson is usually employed by and acts for the employer, not the client, and any 'advice' must be constrained by the available products (Hohenschwert, 2012:156). Other authors seem to agree viewing financial advice as an 'expert service', in the same way as that provided by 'lawyers or doctors' (Bluethgen et al, 2008:2) and distinct from the sale of tangible goods. This view is also supported by Howden and Pressey (2008: 791) who report that professional services are commonly associated with 'advice and problem-solving' and not a prelude to a product sale.

The absence of literature on advisor-client relationships has directly impacted upon the research conducted for this thesis, and understandably places the reader at a disadvantage to the author. As a significant body of literature has reported on sales and customer-salesperson relationships this thesis has elected to codify the differences and similarities between sales and advice, and compare and contrast them, in order to contextualise the nature of advisor-client relationships. It is expected that this semantic analysis of the vocabulary of selling, as found in the literature, and that used by financial advisors will both contribute to knowledge and highlight the conceptual difference between advice and soliciting sales. This thesis will argue for a clearer demarcation in the nomenclature and for the beginnings of an academic consensus over the way language is used by services marketing literature, to distinguish between occupations and professions. This aim is supported by Jolson and Wotruba (1992:59) who emphatically agree that the 'substantial disagreement in terms used' needs to be addressed.

Accordingly, Table 3.1 sets out the various terminologies used in the practice of financial advice and in the literature. The aim is not to suggest that the authors

included in the table have all written about financial advice, or even considered the need to distinguish between advice and selling, rather to highlight the absence of practitioner language in the literature associated with marketing and selling.

Table 3.1. The contrasting vocabulary of literature and practitioners (Source: original)

<b>The vocabulary of literature</b>	<b>Source</b>	<b>The vocabulary of the practitioner</b>	<b>Source</b>
<b>Financial Services</b>	Söderberg (2013); Barnes (1994)	Financial Advice (financial planning)	Murphy and Watts (2009)
<b>Industry</b>	Barnes (1997); Llewellyn (2005); Pedley (2009)	Profession	Gummesson (1978,1981); Sharma and Patterson, (1999)
<b>Customer</b>	Berry (1995)	Client	Mondofacto (2013); Berry (1995)
<b>Sales/Selling</b>	Bendapudi and Berry (1997);  Taylor et al (1981)	Advice	Niemeyer and Thorun (2012)
<b>Salesperson</b>	Weitz and Bradford  (1999); Boles et al (1997)	Advisor	Author
<b>Commission/bonus</b>	Hackethal et al (2009)	Fees	FCA (2013)
<b>Good (product)</b>	Jolson (1997)	Service	Gaskell and Ashton (2008)



It is also notable that differences exist in both the operating frameworks and the nature of service relationships between those deemed professional service firms (PSFs), including financial advisors, and service firms who market goods. Table 3.2 therefore sets out to both distinguish and compare the *modus operandi* of the former and the latter. Whilst the definition of a professional service firm remains in dispute, the category is characterised by one author as lacking physical resources, knowledge-based, often in a partnership structure and identifying with professionalism (Empson, 2013). Financial advisory firms would find little difficulty in relating to these characteristics and are therefore considered as part of the professional services domain.

Accordingly Table 3.2 identifies traits that are more likely to be associated with financial advisors and signposts the need for a level of conformity in the language of academic marketing. This line of reasoning invites the broader canvas of marketing literature to acknowledge that significant differences in language, approach, controls and client relationships apply to professional services. However the conceptualisation recognises that areas of overlap, interconnectivity and common themes are likely to exist between professional and other service firms and acknowledges that a third, hybrid service firm, may require defining. This fresh approach to describing and defining services firms may have the added benefit of encouraging practitioners to relate and contribute to academic debate.

Table 3.2 The operations of financial advisory firms versus non-professional service firms (*Source: original*)

<b>Non-professional service firms</b>	<b>Source</b>	<b>Analogous advisor constructs</b>	<b>Source</b>
Relationship marketing	Barnes (1994); Berry (1995)	Management of client relationships	Morgan & Hunt (1994)
Business to business (B2B)	File et al (1994); Foster & Cadogan (2000); Johnson et al (1997),	Firm to client (B2C)	None
Transactional	Howden & Pressey (2008)	Relationship	None
Customer focus-Price	None	Client focus -Goals	None
Tangible	Knemeyer & Murphy (2005)	Credence good	Darby & Karni (1973)
Looser ties	None	Close cooperation Close contact	(Lowendahl, 2005:18); Jaakola & Halinen (2006)
Word-of-mouth Recommendation	Buttle (1998); Ryu & Feick, 2007); File et al (1994)	Recommendation Referrals	Kumar et al (2010)
Usually a brand	Sittampalam, (2013).	Usually an individual	FSA (2010)
Trade body	Federations	Professional body	CII, IFP

The need for vigilance when using language is reinforced when authors imply that repurchase intentions and referral provision are the same (Eisingerich & Bell, 2007). Buyers acting in a commercial capacity are constrained in their behaviour by both service contracts and corporate requirements. This leads to speculation over how much of the final buying decision rests with the individual, and questions if a commercial buyer has loyalty to a supplier, in a competitive world, while noting buyers in large firms will change over time. It can also be questioned whether the responses garnered from surveys are the work of the respondent or if they reflect corporate opinion as some employees of financial advice firms are instructed by employers not to answer surveys. Lastly, as the literature predominantly observes relationships through the lens of the firm rather than the client one aim of this thesis is to redress the balance.

Having provided an account of the challenges presented for practitioners by the nomenclature the literature, this chapter now turns to a conventional review of academic contributions. Whenever the term 'customer' is used, it is solely to acknowledge the terminology of the original source. Otherwise, the term 'client' will be used when discussing financial advisor relationships with consumers.

### 3.3 Services marketing literature

Many studies have explored relationships in a services context (Berry, 1983; Gummesson, 1997; Parasuraman, 1997), and others have discussed professional services mainly from the firm or inter-firm perspective (Devlin, 1997; Woo & Ennew, 2005). Such constructs as service quality and perceived value have also been comprehensively researched, as has the importance of what customers value in service relationships (Howden & Pressey, 2008; Parasuarman, 2000; Woodruff, 1997). However, it is notable that authors indicate no clear agreement about the factors that add value when differentiating between service offerings (Devlin, 1997). The same constructs are also to be found in the literature on professional services (Gummesson 1978, 1981; Lapierre, 1997; Sharma & Patterson, 1999) however

financial advice finds no advocacy as literature has a tendency to view professionals from the prism of law or accountancy (Darby & Karni, 1973; Gummesson, 1981; Howden & Pressey, 2008).

Challenging this narrow interpretation of professional services, both Watson (2002) and Thakor and Kumar (2000) observe levels of ambiguity and confusion when describing occupations in professional terms. Professionalism is identified with advanced learning and intellectual independence according to Broadbent et al (1999) who claim this legitimises professional relationships with society. This view is supported by Gaskell and Ashton (2008) who add that professional knowledge is legitimised by the state through the conduit of professional associations. Consequently, in many ways, it is understandable that literature, prior to 2006 when chartered status first became available to financial advisors, treats financial advice as an emerging profession that lacks the advanced professional learning of 'organised professions' (Cogan, 1955:109). At issue for this research is the applicability of utilising literature that excludes financial advice from definitions of professional services as it is uncertain how studies into other professions will transfer to this study (Thakor & Kumar, 2000). This concern is moderated somewhat by the broader definition of professional services proposed by Gummesson (1981), who claimed they are characterised by advice and problem solving that are not the prologue to the sale of a physical product. This conceptualisation seems to fit well with the work of today's financial advisors and garners support from Murphy and Watts (2009), who consider the role of an IFA to be more complex than many realise, demanding as it does persistence plus organisational and interpersonal blended with technical and analytical skills. They observe that financial advisors require specialist knowledge of taxation, retirement planning, estate planning, investment and insurance products and services. Finally Murphy and Watts (2009) conclude that when providing investment advice the advisor needs to examine every relevant product and relate each to the scientific knowledge of asset allocation, risk and return and diversification, before complete advice can be delivered.

One construct that can be relied upon for its relevance to financial advice is that of credence. Eraut (1994:2) is clear that 'experts are needed to provide services which the recipients are not adequately knowledgeable to evaluate'. This proposition is inherent in the concept of 'credence goods' first elaborated by Darby and Karni (1973:68), who defined the idea as one that 'the average consumer can never verify the level of quality of an attribute possessed by a brand or even their level of need for the quality supplied by the brand'. They argue that, on account of 'technical complexity', certain services can only be supplied 'within the framework of a relationship' and that enhanced 'customer value' (Howden & Pressey, 2008:789) is important to the long-term success of a company. This reasoning has led authors to combine the two elements and design the construct of 'relationship value' (Payne & Holt, 1999). However, what customers of professional services determine to be of value, remains in doubt, as no agreement can be found over how value should be defined (Devlin, 1997; Howden & Pressey, 2008), particularly for customers of professional services. This uncertainty appears to correspond with claims that the literature has devoted little attention to how salespeople 'create value' and that an unsatisfactory understanding of value is pervasive (Hohenschwert, 2012:158). This position is one supported by the earlier work of Lapierre (2001), who argued that no consensus exists over what it is that customer's value.

The value in a relationship is not considered to be static, and firms should attempt to predict when customer value fluctuates in order to maintain equitable relationships with their customers (Beverland et al, 2004). However, studies of value creation in the context of credence goods are reported to be 'non-existent' by Howden and Pressey (2008:790). As previously noted, given that financial advice does not always require the purchase of a product, the assertion, by Howden and Pressey, that relationships are distinct from products and capable of differentiating one company from another is an important finding. However the significance of this finding is diluted by lack of clarity over whether relationships are individual or corporate since it is claimed that companies have business relationships which are managed by individuals (Howden & Pressey, 2008:800; Ulaga, 2003). It is also observed that relationships will more readily form with individuals than with goods, in order to

mitigate the risks associated with intangible services like financial advice (Bendapudi & Berry, 1997).

The stated importance of relationships for referral generation invites further exploration of marketing literature as it connects to relationships. Bendapudi and Berry (1997:17) have argued that interpersonal relationships can be maintained either by desire or default and are described as being 'dedicated' or 'restraint based' in nature. Similar comparisons have been made in employee/employer relationship literature and in turn this has led to a conceptual acceptance by marketing academics who advocate the importance of both constructs in maintaining relationships (Bendapudi & Berry, 1997). One attempt at defining customer to business relationships is offered by Czepiel (1990, in Barnes, 1997: 769) as 'the mutual recognition of some special status between exchange partners'. This work had particular resonance for Barnes (1997) because it guided his research, although its applicability, to this thesis is limited as Barnes does not deal directly with the question of why customers refer. Another interpretation is offered by Grönroos (1994) who, whilst supporting the concept of mutuality, also highlights the importance of profit to a commercial relationship. Also emphasising the importance of profits Fornell and Wernerfelt (1987, in Grönroos 1994) describe attracting and retaining clients in terms of offence and defence. These metaphors capture the competitive nature of the interplay between firms and clients and inter-firm.

Other authors categorise relationships along a scale ranging from transactional to relational (Congram, 1991), with a genuine relationship forming at some point along the 'continuum' (Barnes, 1994:567). Whereas Knemeyer and Murphy (2005) view transactional marketing as the inverse of relationship marketing, characterised by less frequent contact and normally associated with the providers of tangible products. The concept of relationship marketing appears to fit well with intangible services like financial advice, as it focuses on collaboration and reinforces the evolving nature of commercial relations. It was Berry (1983:25) who introduced the term 'relationship marketing' to the literature which he defined as 'attracting, maintaining...and enhancing customer relationships' emphasising the importance of

earning the longer term loyalty of new clients. This is a characterisation that appears to draw support from the often cited work of Morgan and Hunt's (1994), which in turn may have been influenced by Christopher et al (1991) who add that relationships adjust to interactions between buyer and seller over time. This fits with a characterisation of professional services as demanding significant interaction between service provider and client (Lovelock & Gummesson, 2004). Relationship marketing has also been described by Weitz and Bradford (1999:241) to be marketing, selling and 'building partnerships...with key business to business customers'. Whilst this thesis is focused on advisor-client relationships, rather than business-to-business interaction, the finding by Weitz and Bradford (1999:241) that clients will often exhibit 'greater loyalty' to individual advisors than to the firms they work for will be of concern to employers of IFAs, particularly since the role of the individuals acting as 'salespeople' is thought to play a 'key role' in an activity that is between individuals acting on behalf of the firm rather than the firm itself (Weitz & Bradford (1999:241)).

The issue of who 'owns' IFA clients has been tested in the courts on many occasions with differing outcomes, underlining how notoriously difficult it is to enforce restraint of trade clauses. It follows that if advisors have the support of clients it eases the transfer of clients to competitors. However, as references are now required, from all previous, regulated, employers, this may curb the ambitions of entrepreneurial advisors seeking to take clients with them, for fear of regulatory censure resulting from unprofessional client departures. There is anecdotal evidence that the requirement for a reference from previous employers has reduced the propensity of unsatisfactory advisor departures. The threat of defections together with the perception of employment legislation, that appears to favour employees, are obstacles to building a practice and may be factors in explaining why so many advisory firms are sole trading or small firms.

Boles et al (1997:253) have also contributed to this field by stressing the importance of relationship quality in buyer/seller relations, extending the work of Crosby et al

(1990), and developed a definition for relationship quality as 'an evaluation of the personal and business ties linked to an interaction between a buyer and salesperson in a business setting'.

Other authors have challenged the core conception of relationship marketing by observing that commercial relationships are often controlled by impersonal databases and are probably one-dimensional, in that it is usually the supplier who wishes to engage with customer rather than the inverse (Hogg et al, 1993). Relationships that endure are thought to comprise three elements; continuing servicing needs, customer choice of supplier and the availability of alternative providers (Berry, 1983). This conceptualisation seems to fit well with the business model of many of today's financial advisory firms, who seek clients who have the capacity to increase investment regularly while contending with intense competition. Signalling caution, Barnes (1997) offers support for McCall (1988), who suggested that even enduring relationships reach maturation and may require stimulation to continue. While recognising that perception forms an integral part of all social science research, it is nevertheless doubtful that the result of Barnes's investigations can be described as 'evidence' in absolute terms given his findings are largely dependent on the perceptions of his participants, which are inevitably subject his interpretation and no longer represent the individual's own views. Measuring human behaviour, like perception, by mathematical analysis is highly problematic when perception is thought to change over time (Zeithaml, 1988), as results based on one moment in time will not reflect changes in perception, although it is difficult to conceive of a more effective analytical approach than multiple regression analysis or equation modelling for quantitative study.

Other disciplines, including economics and psychology, have focused on the financial or behavioural costs associated with leaving a commercial relationship or on affective issues like attitude. Costs are held to be an important impediment in changing supplier, particularly if there are also 'structural bonds' which in turn provide a barrier to competitors (Barnes, 1994:563). Reichheld (2003) has also argued that costs are impediments to change supplier while noting that repeat



business is not necessarily a demonstration of loyalty instead customers may choose to buy again because they are fettered by apathy. Indeed, Perrien et al, (1994) noted that banks may deliberately introduce higher product exit costs to deter customers from switching to another bank. However, such strategies may lead to customer disaffection rather than mutual satisfaction, if the customer feels 'trapped' in a service relationship as an unwilling participant (Barnes, 1994:563). In his later work Barnes (1997:765) argues that 'affective variables' are more influential in relationships than others, whilst acknowledging that this is more likely in the case of an individual customer than with a company.

Although what distinguishes an individual from a company in this context is not made clear, particularly significant as one or two person companies are common place in financial services. It is also observed that clients of larger companies may not always deal with the same individual, leading to difficulties in arriving at conclusions over the influence that can be attributed to different variables.

Academics are uncertain whether communication skills or expertise are the main driver of relationship quality and offer little understanding of how relationships impact referral activity (Eisingerich & Bell, 2007). However, when viewed from the customer perspective, a lack of expertise may explain why some customers elect to stay with existing providers on account of their concerns about making inappropriate future purchase decisions (Bendapudi & Berry, 1997). Authors cite examples of hairdressing, video retailing and dry cleaning, where close relationships form often on a first name basis (Barnes, 1997). Without doubting the likelihood of close relationships forming in retail situations, perhaps the low value of these transactions allows bonds to form with less concern than in higher value transactions, since a poor haircut can be forgiven more readily than the loss of capital.

One contemporary paper that does focus on advisor and client relationships, Söderberg (2013) is reviewed with greater scrutiny both for its rarity value and

because it highlights the difficulties for researchers who are not practitioners, encounter with the language and operation of independent financial advice. A particular difficulty for academics is that they may not be familiar with the regulatory demands overarching financial advice and as a result they often fail to report and acknowledge the differences between regulated advice and a non-regulated sales relationship.

Söderberg (2013:148) stresses the importance of 'professional financial advice for consumers' and contends that there is insufficient research into the role of professional advice and their relationships with consumers of retail financial advice. Her study nevertheless seems uncertain about its actual value, since elements of her research paper are devoted to criticism of advisors. However the criticisms are confusing as while she describes her research as exploring advisor-client relationships the paper appears to address investment related issues. This is illustrated most vividly when she describes financial advisors as salespeople, who have a conflict of interest which is not always revealed to consumers, yet makes no distinction between an advisor and a salesperson. This reveals that Söderberg's (2013) work is centred on banking and bank advisors and views financial advice solely from a banking perspective. To an independent practitioner's eye, this indicates a fragile knowledge of the type of financial advice that is provided outside the banking industry although one can understand that a certain degree of confusion can easily arise because salespeople are often described as advisors (Söderberg, 2013). It must nonetheless be acknowledged that generic support for Söderberg's descriptions is offered Schwartz et al (2011) who recognise that negative results may occur when advisors have conflicts of interest. The reader is left to assume that such conflicts are financial in nature although Hackethal et al (2009) suggests that advisors are also conflicted over the need to both advice and sell. Their study was conducted in Germany before the UK introduced its ban on commission, so perhaps if the authors were to repeat it today, they might find fewer grounds for concern as incentives to sell products are no longer factor.

Söderberg (2013:148) argues that financial advice is solely concerned with product sales and suggests that the relationship between a financial advisor and a consumer can be characterised as that of a 'buyer and seller' with the seller promoting products that earn them the most in remuneration. Indeed, then she draws from another German study suggesting that consumers would not take up advice, when it was offered, despite the study supporting the advice process by stating 'our results show...following the advice would have improved the efficiency of the portfolio' (Bhattacharya et al, 2012:30). This German study was based on data relating to 'brokerage clients' of a bank who, by definition, are probably making more of their own decisions rather than taking advice (Bhattacharya et al, 2012:30).

The commission model in the UK led to charges of bias in product selection and a failure to offer products and services that do not pay commission (FSA, 2010). The intention is that the abolition of commission will remove bias and stimulate a wider use of products and services. Since the selling of investment related financial services on a commission basis is now prohibited Söderberg's (2013:148) reasoning, that 'incentives to recommend' one product over another exist, is inapplicable in the UK context, although it is observed that the commission model in Sweden persists. In theory, UK advisors should now be objective over product choices when fees are based on time or investment value, although some commentators have implied that fees may not remove bias if they act like commission and may create disincentives for advisers to release client assets (Yellowtail, 2010). Hall (2010), for instance, argued strongly that abolishing commission will not improve consumer access to advice as the likely result of RDR is to reduce the supply of advice. Indeed, the impact of RDR has resulted in some UK banks withdrawing completely from financial advice, leading to concerns over the availability of financial advice to the 'mass market' (Wheatley, 2013). Writing in *The Times*, while acknowledging his contribution is not academic, Budworth (2014) goes further and asserts that banks have withdrawn entirely from advice provision. A likely unintended consequence of the Review is to lessen the availability of independent advice in favour of restricted advice as evidenced by the decision of Sesame, 'the UKs largest advisor network', to become fully restricted from January 2014 (New Model Advisor, 2013). The

reduction in the provision of independent advice will undoubtedly impact consumers, as they will have less access to bespoke advice.

Understandably banks are inclined to offer their own products (FSA, 2005), whereas independent financial advisors are required to utilise the entire market place; these differences now being enshrined in UK regulation. Of course it is to the banks' advantage if consumers fail to differentiate between the marketing information and sales messages they use in support of their own 'products versus the independent and disinterested advice offered by IFAs. From a practitioner's perspective, it now seems as though banks are striving to blur the distinction between financial services marketing and independent financial advice by proposing that products provided by one bank can be appropriate for all consumers. The number of banks in the UK offering independent advice is in sharp decline, and bank marketing departments need a message that will deflect consumers away from independent advice. A similar message is needed by the larger restricted advice organisations, often with roots in insurance based enterprises, to assuage investor concerns over independence. It is recognised that the range of advice available may be different in Sweden (Söderberg, 2013) and that the subtleties of language may have not have been translated as desired.

Söderberg (2013) acknowledges a limitation of the research methodology for her study by suggesting that females respondents, who were asked about banking services, view females as being more customer-orientated than men. Arguably this view may have been influenced by the fact that 'considerably more females' (Söderberg, 2013:159) work as advisors in banks in Sweden. The consumer perceptions underpinning these conclusions were based on four photographs of two advisors. It is questionable how visual images can offer other than very superficial perception as in real life each advisor will look different. The finding that a smiling advisor is preferred to the unsmiling image is entirely predictable and the conclusion that an image can be connected with the perception of risk is surprising. Given the questionnaire was framed around an investment issue, one speculates as to how an investment question informs a study on relational issues. It is asserted that the

suggested investment portfolios, which are presented as advice in the research scenario, have seven risk profiles yet this is not apparent in the choices for the respondents. Furthermore, the respondents were invited to gauge the advisor's 'expertise', 'capability' and 'trustworthiness' (Söderberg, 2013:166), when it is the bank that should be judged as they control all outcomes and the advice process. Söderberg acknowledges that advice has credence properties and thus that the validity of research from respondents randomly selected at a train station, who may never have used an advisor and may therefore have no knowledge of investment matters, is a potential limitation of an exploratory study.

### 3.4 Relationship literature (Trust)

In a rare academic study of financial advisor/client relationships, Sharma and Paterson (1999) endorsed the value of effective communication and offered seven elements that advisors could utilise, while noting that the core service and how it is delivered remains crucial to relationship building. Authors agree that frequency of contact fosters trust as clients have difficulty evaluating a service that is time dependent (Darby & Karni, 1973). Other authors conclude that a trusting relationship requires continual reinforcement and highlight the significance of communication and the way in which the service is delivered (Doney & Cannon, 1997; Sharma & Paterson, 1999). These studies underscore the earlier work of Czepiel (1990) who judged that service relationships are only truly formed following continual exchanges and in anticipation that relations will continue. In a similar vein, social psychologists have noted the importance of factors like care, support, loyalty and trustworthiness to the growth of strong relationships (Duck, 1991).

Given that trust is deemed to be a key element in a successful working relationship (Berry, 1995; Morgan & Hunt, 1994), it is logical to describe it as a 'critical' factor in financial planning relationships (Hunt et al, 2010:83). Eisingerich and Bell (2007:255) likewise argue that the credence characteristics common to professional services make trust 'vital' to the success of longer term relationships. In a study that is

regularly referenced in the literature, Morgan and Hunt (1994:23) consider trust to be based on a perception that the seller will act reliably and with integrity. This view is supported by Crosby et al (1990) and Nevin (1995), who add that trust instils confidence in the customer that a salesman can be depended upon. Trust is also thought to be an important influence on the success of a salesperson and of customer relations (Doney & Cannon, 1997; Dwyer, 1987; Foster & Cadogan, 2000; Swan et al, 1988). This general view of trust is supported by the academic literature, straddling economics, psychology and sociology, and reflects the practitioner based literature by proposing that relationships are predicated upon trust developed through effective communications (Bland 1997; Doney & Cannon, 1997; Hatfield, 1993; Morgan & Hunt, 1994; Sharma & Paterson, 1999). Other scholars have hypothesized, however, that it is expertise that encourages trust and dependency (Bendapudi & Berry, 1997). The widely cited study by Morgan and Hunt (1994) describes trust as being demonstrable when one person, in a relationship, can rely on another, and expects to be treated with honesty and predictability.

Given the number of possible definitions and different interpretations of trust, disputing the assumptions relating to the effect of trust it seems to be not only logical but compelling to question the claimed effects, particularly when authors note it is only 'thought' that trust is important in successful relationships (Verhoef & Hoekstra, 2002:2040). On the other hand, other authors assert that trust does have a direct impact on relationships (Johnson et al, 2003; Morgan & Hunt, 1997) and is essential in encouraging dialogue between parties (Weitz & Bradford, 1999). It is also argued that trust is built gradually, drawing its potency from continuing and successful interactions which reinforces customer confidence in salespeople (Nevin, 1995). This draws parallels with the work of Zeithaml (1988), who found perception changes with time leading to speculation that trust may also vary, depending on the outcome of exchanges between client and advisor.

Whilst it is recognised that the entirety of the literature reviewed assumes that trust is an important component of relationship building, it is more challenging to find firmly grounded connections between sustaining relationships and trust. An apparent

consensus exists that a definition of trust adopting the 'classic view' (Rotter, 1967:651) is one which asserts that reliability is of paramount importance (Lindsfold, 1978; Morgan & Hunt, 1994). This approach is echoed by Llewellyn (2005), who notes that trust requires firms to act in a dependable manner, honour commitments and avoid opportunities to manipulate consumers. Others assert that trust is a reflection of client vulnerability (Gilmore et al, 2007) as when advisors acquire 'guilty knowledge, they can take advantage of clients in a manipulative fashion (Evetts, 2003:400). This issue is fundamental for financial advisors given the knowledge gap that is a characteristic of 'credence goods' (Darby & Karni, 1973:68). Whilst agreeing on the importance of reliability, other authors consider trust may be separated into emotional dimensions relating to the level of care and, crucially the perception that the seller is endowed with knowledge and competence (Johnson & Grayson, 2003). This assertion is in part supported by Crosby et al, (1990) who argue that personal involvement between seller and buyer creates satisfied clients. It is not clear, however, whether trust requires some dependency or vulnerability to exist or if it is created in the same way as it is sustained (Doney & Cannon, 1997). It is noteworthy that marketing literature also highlights the role of dependency in maintaining relationships (Bendapudi & Berry, 1997). Although recent in historical terms, these findings are over 16 years old, if the study were to be repeated today, given advances in social media, online information systems and comparison sites, the level of dependency envisaged would perhaps be lessened.

How trust influences the creation of sustainable relationships remains unclear, since the literature appears to argue cogently that it is the quality of financial advisor communications which is the key determinant to enduring professional relationships (Sharma & Paterson, 1999). It is recognised that Australian experiences may differ from that in the UK (Sharma & Paterson, 1999), but this thesis maintains the inclusion of this citation is justified because the text is unusually germane to the study. In contrast, Crosby et al (1990) contend that, whilst relationship quality is dependent on trust and client satisfaction, future sales are dependent on expertise. This view does not enjoy total support, as it appears to be challenged by the findings of Sharma and Paterson (1999) who claim that affective, not cognitive issues, are central to relationships. On the other hand, a survey in the USA of 1034 clients of

financial advisors, found that investment performance was a key factor in building trust (Littlechild, 2010). This study was conducted for commercial purposes, however, and may, therefore, be subject to concerns over validity of its findings. Given this thesis is concerned with attracting new clients, rather than future sales from existing clients, it is difficult to reconcile how expertise could play a role in attracting prospective clients or relationship when prospects have no experience of the firm to influence their decision making. Indeed, when Hung et al (2008) researched the attracting of new clients they found that prospective clients were more concerned with finding a trusted advisor than any other factor and that prospects have a preference for established firms on the basis they are likely to be around when needed.

Another view is that not all customers may wish to engage with sellers and enter into long-term relationships (Barnes, 1997) and identifying such customers will allow resources to be directed at those who do wish involvement (Bendapudi & Berry, 1997). This view has since been supported by Reichheld (2003:53) who argued that companies should select and nurture clients with whom it has a positive relationship as spending time on 'detractors' is counterproductive. Within larger firms, he suggests, resistance may come from external marketing agencies and in-house research departments as they seek to maintain their status and employment by the maintenance and utilisation of more comprehensive client databases. Reichheld's view appears to challenge established thinking as it shifts the emphasis away from behavioural aspects such as communication and trust which dominate literature on relationships.

### 3.5 Relationships and perception

It has been argued that client retention is based on the perception customers have of service quality (Crosby, 1990) however it is debatable whether a questionnaire could offer a reliable measure for a construct that is not concrete. If perception is to play a large part in sustaining relationships then it is necessary to understand how



perception manifests itself. Since advisors do not necessarily understand why clients remain with them, it was anticipated that academic texts would reveal more insight into the nature of sustainable relationships and the way in which referrals are generated. However no text was found that did offer greater understanding of the issues. This lack of understanding may go to the heart of the reason why advisors do not appear to be able to attract referrals on demand. The key to achieving understanding may be to question whether it is knowledge (cognitive) or functional (affective) issues, that drive relationships (Sharma & Paterson, 1999), or, crucially the perception of relationship quality (Eisingerich & Bell, 2007).

Other authors have argued that the perception clients have of quality may have cognitive dimensions and not necessarily based on evidence (Liljander & Strandvik, 1994 in Grönroos, 1994). It seems reasonable to assume that cognitive factors, such as investment performance, which can be benchmarked, would influence cognitive perception and hence invites speculation that perception is limited to affective factors where measurement is problematic. At issue is the difficulty in evaluating feelings since, by nature, they will be changeable and difficult to define. The absence of findings that have been put to practical use raises questions over the validity of the literature although understandably interpreting constructs like perception must be challenging, as are identifying theoretical conclusions that are applicable to business. Arguably, testing implies empirical investigation and may not be considered an appropriate approach for evaluating theoretical conclusions. This thesis recognises that research expectations that can be put into practice, rather than a theoretical, should not always be expected as learning more is an achievement in this context. This reflexive admission underscores the fact that preconceived ideas can influence research and acknowledges that findings are rarely conclusive (Johnson & Duberley, 2003). The scholarly work of Eisingerich and Bell (2007) is acknowledged, who surveyed 4,244 advisor clients and understandably they draw findings from the collective results. However if individual perception plays a role in determining relationships, arguably questions can be asked concerning the value of condensing individual views into the voice of the researcher. Whilst acknowledging that patterns and themes will emerge, when

individual opinion is subsumed into an aggregated view, a potential weakness in the research design is that the explanations may fail to take account of individual views.

Service relationships are thought of as 'transactional' or 'relational' in turn, being either infrequent or continuous (Crosby, 1990:68). It is thought that staying 'in touch' is crucial to cement enduring relationships (Crosby, 1990:73). However, other authors are clear that retention provides no real evidence of a relationship between the parties and it may simply be a marriage of convenience (Barnes, 1994). Enduring relationships are encouraged when a salesperson reduces perceived uncertainty in current and future dealings (Roloff & Miller, 1987; Zeithaml, 1981, in Crosby, 1990). It is argued that, when a customer is referred to a firm, both retention and profitability is improved when compared to other methods of customer capture (Reichheld, 1996).

Authors who have written extensively on relationship marketing (Barnes, 1994; Berry, 1983) assume that retaining customers is preferable to looking for fresh ones. However, unless customers buy more services, thereby increasing the fees they pay in real terms (measured against inflation), their value to the company will diminish. This is particularly so when fees are linked to investment performance and therefore reduce during falling market conditions, because stock markets do not always outperform inflation. Furthermore, advisors do not operate exclusively in the investment arena and clients withdraw capital, so sourcing new clients becomes essential to facilitate corporate growth. Measuring retention may be a weak indicator of loyalty when customers are confronted with difficulties of changing supplier (Reichheld, 2003). After purchase, customers will often compare expectations with outcomes from the service to measure the quality of the service (Gummesson, 1991; Parasuraman et al, 1988). Should expectations and perceptions differ then disappointment is likely to follow. Buttle (1998:248) sees the potential for a discrepancy between expectations and perception of product as an example of 'cognitive dissonance' and suggests that buyers who experience this sense of unease can moderate their concerns by seeking out positive word-of-mouth from satisfied buyers (Buttle, 1998). Firms may therefore wish to consider introducing any

prospective client in the event they need pre-purchase reassurance to an existing client. This notion of a client mentor seems particularly apposite for an intangible service like financial advice.

The importance placed on how customers perceive a service is also emphasised by Barnes (1994), whose view is that it determines whether a relationship exists or not, and also by Grönroos (1994), who observes that the actions of customers and subsequent profitability are related to perception over service quality. In the context of financial services, the perception that the service quality will be maintained will encourage existing clients to invest new money, which underscores the value of targeting clients who are likely to increase their wealth. However, for Grönroos (1990), the essence of maintaining a service relationship is centred upon keeping promises, a view which is extended by Bitner (1995) to include the need for guarantees concerning service delivery to avoid uncertainty between the parties.

Given the difficulty in measuring the performance outcomes associated with credence goods (File et al, 1994) clients are likely to look for cues by seeking reassurance that outcomes are on track to meet pre-agreed targets according to Sharma and Paterson (1999) who stress that effective communication plays a critical role in retention. Crosby et al (1990:77) suggest that firms should consider screening salespersons for 'social' skills and framing rewards based on the ability to maintain existing customer relationships. This theme is supported by Sharma and Paterson (1999:164) who argue for interpersonal skills training to reinforce retention and build 'strong social and emotional bonds' between the parties. Emotion is held to play a key role in predicting relationship longevity as studies indicate that satisfaction is enhanced when emotions are in equilibrium (Barnes, 1997). The cultivating of social and operational bonds between companies, by adding layers of complexity to hinder customers' ability to switch supplier, is advocated as a means of retention by Turnbull and Wilson (1989). Research has also found that consumers may avoid taking second opinions in a desire to maintain harmonious relations, even at the expense of better value (Schwartz et al, 2011). This finding fits well with the difficulties and costs in terminating relationships and the importance of creating

'structural bonds' found by Barnes (1994:563). It is perhaps fitting to close this section with a view from (Czepiel, 1990), who argued that a relationship must be mutually beneficial if it is to endure.

Literature relating to client satisfaction and retention may offer cues to what client's value and hence why they may refer. Therefore texts connected with client retention are now reviewed.

### 3.6 Retention

Understandably, financial advisors would be delighted to understand what academics report are the keys to client retention, as it is possible themes may emerge that also influence new client capture. Inevitably, a number of conflicting conclusions have surfaced, as for example when Grönroos (1994) indicates that satisfaction is a requirement to retain customers whereas Reichheld (2003) reasons that firms just need to understand what people are saying about them. In a study which is noteworthy for matching individual survey responses to customer's actual behaviour, Reichheld (2003) suggests, that loyal customers should in effect become a company's marketing department. Although this idea seems attractive on the surface, in practice it has to be questioned, whether loyal clients would be prepared to find and approach prospective clients. These concerns are reinforced by Jolson (1997:79) who defines prospects as 'potential customers that have a need for the product, the ability to buy it, and the authority to make the purchasing decision'.

Reichheld's study is deserving of additional scrutiny because it offers a strategy that can be put into practice. His argument is that new business will be directly influenced by segmenting and focusing on clients who say they will recommend (Reichheld, 2003). This proposition appears to be aimed at an industrial audience, since it fails to acknowledge the complex reality associated with the marketing of intangible services, in which clients who remain with an IFA will be, in part at least, satisfied

with the relationship, and thus are likely to say they will recommend. In turn, asking a client if they will recommend does not, necessarily mean, in practice, that they will recommend nor does Reichheld (2003) explain how recommendations occur, given it would seem unlikely that a client would volunteer a recommendation without a request for information. This concern fits with the findings of a study by Bachrach (1999:4), who found that 94% of customers of a stockbroker said they would recommend the firm, when in reality only '11%' actually said they had. Focusing on clients presumed intent implies that the remaining clients are not deserving of the same level of attention which, for financial advisors, may breach the regulation requiring them to treat customers fairly. Finally a significant, further, limitation of Reichheld's (2003) analysis is that even if a recommendation were to be offered, the receiver could decide not to act upon it or seek a second opinion, in which case the idea may never produce a new client enquiry. It is therefore unlikely that utilising Reichheld's (2003:52) growth model would be appropriate for IFAs since it is unlikely they would have significant numbers of 'detractors' because clients are free to terminate the relationship at any time and therefore it is difficult to rationalise why a disgruntled client would remain with an advisor. Indeed Reichheld's (2003:52) position on detractors appears to be at odds with Berry (1995), who emphasised the importance of enduring relationships and argued that retaining and converting disaffected clients, not just attracting new ones, are of similar importance.

Retention may also be influenced by the time customers are prepared to spend ensuring a service relationship meets their needs. Authors posit that, particularly in services, increasing dependency is a likely outcome for customers who have invested considerable time to create a meaningful relationship. Aptly for this thesis two authors illustrate this likelihood by noting that engagement with a financial planner might be a good representation of time investment (Bendapudi & Berry, 1997). This resonates with Reichheld's (2003:48) definition of loyalty which demands 'willingness to...make an investment...to strengthen a relationship' even if the price may at times be uncompetitive. Another dimension of retention which seems to link with increasing dependency is 'social penetration theory' which goes further and relates perceived costs to benefits (Altman & Taylor 1973 in Bendapudi & Berry, 1997:70). However a weakness in this concept must stem from the difficulty

customers find in evaluating the benefits of credence goods like financial advice. Clients may not always understand an intangible service, or be capable of gauging whether the service has fulfilled its promise, until expectations are not met. Dissatisfaction will follow disappointment and, to avoid departures, firms need to regularly remind their customers of the overall purpose of the service (Levitt, 1981 in Berry, 1995).

One tactic that may assist new client generation stems from a study by Bendapudi and Berry (1997:25), who drew upon an existing consultancy-based relationship marketing strategy to advocate that clients be allowed to interact, an initiative that could not only improve retention but also stimulate new business for financial planners. They cite an example of encouraging a sales relationship by the provision of free piano lessons to cultivate interest in piano sales. Accordingly it would be relatively straightforward for advisors to conceive of a number of free services connected to financial advice, in order to attract potential clients. For example a free will review service, a seminar on funding educational costs or tax sheltering are just three such initiatives.

The impact pricing has on retention in services has not been fully explored in the literature, although Varki and Colgate (2001) have established a link between price and customer behaviour in a banking context. Whether these findings are transferable to clients of financial advice is uncertain, particularly as the data are drawn from customer responses to questions of perception over fees. Clients of financial advice are unlikely to have knowledge of what represents a reasonable fee, since prices are set by individual firms, although increasingly advisors are publishing their hourly fees on the websites.

In services, particularly those of complexity, Crosby (1990:69) assumes that 'relationship quality' is vital and notes that similarity and expertise, between customer and salesperson are key elements in facilitating sales when opportunities present themselves. Quality relationships are held to be based on trust and satisfaction,

although Crosby (1990) conceded that it is challenging to validate such constructs. Buttle (1998) proposes a 'six markets model' to highlight that word-of-mouth is not restricted only to clients, but can also be used to influence suppliers and employees by converting them into ambassadors for the company. It is also considered to be the gateway onto a 'loyalty ladder' model (Ballantyne et al, 1991) which provides a route for prospective clients to become clients and ultimately conscious supporters of the business.

Up to this point in the review of academic literature, the focus has been on discovering more about client-advisor relationships and identifying the factors that are held to be important in creating enduring relationships. This path was followed on the assumption that a causal link exists between relationships that last and the propensity to refer, though it should be noted it is still not clear whether any relationship between the issues exists. It seems appropriate at this juncture to pause and take the opportunity to summarise some of the findings of the academic literature on relationships. Adopting the same format used in the previous chapter to summarise the practitioner literature, Table 3.3 offers a summary of the positions taken by the key authors.

Table 3.3 The Academic literature relating to relationships

Author	Factors
Buttle (1998); Johnson et al, (2003)	Referrals can be solicited when a positive relationship is formed evidenced by oral comments from the customer when they acknowledge satisfaction
Doney & Cannon (1997)	Building trust is complex. Trusted sales people can maintain difficult relationships.  Frequent contact invokes trust.

Eisingerich & Bell (2007)	Customer loyalty is affected by how you perform. Select advisers with emotional intelligence/social competence
Gilmore et al (2007)	Trust is individual even if acting for an institution and professional bodies are relied upon to compensate for losses
Hoy & Moran (1999)	Trust is multifaceted and complex.
Hung et al (2008)	Trust important to prospective clients
Johnson & Grayson (2003)	Client satisfaction is based on how the service is delivered. Emotion (affective) not knowledge (cognitive).
Romano (2003)	Is trust attitudinal or behavioural?
Sharma & Patterson (1999)	Communication effectiveness is the key driver of relationships.

(Source: original)

At this point the theoretical perspective branches away from services marketing and relationship literature and begins to review the literature held to be connected with referral generation before, in turn, considering the relevance of word-of-mouth communication and concluding with studies relating to sales effectiveness and sales prospecting. This review of the academic literature now turns to two important questions: why do clients refer and when do they refer?

### 3.7 Why clients refer

Many authors have articulated reasons for referrals in other fields or connected to sales rather than advice (Boles et al, 1997; Buttle 1998; Crosby et al, 1990; Johnson et al, 2003; Reichheld, 2003). However, they appear to be unfamiliar with the



regulatory demands overarching financial advice, since they often fail to report the differences between a regulated advisory and non-regulated sales relationship.

Adelman and Ahuvia (1995, in Buttle, 1998) has argued that referrals may be encouraged when 'social support' is present, by noting that it is strongly correlated with client satisfaction. Reichheld (2003) disputes that satisfaction is a gauge of loyalty, however, by pointing to inconsistent links to customer behaviour. A study by Boles et al (1997) indicates that the quality of the relationship between customers and salespersons may influence the generation of referrals, while Johnson et al (2003) suggests that when a sales relationship is valued by a customer the natural response will be to respond positively to a salesperson. Whether or not such mirroring leads to referral generation is uncertain, since customers may simply choose to be more cooperative or continue the relationship rather than refer. Customers will not necessarily refer just because they believe the relationship will continue (Johnson et al, 2003) and, perhaps more importantly, because loyal customers place their reputation at risk when making a recommendation they need to be reasonably certain that a positive outcome is likely (Reichheld, 2003).

Accordingly in an effort to reduce the perceived uncertainty connected with offering a referral, customers may wait until they perceive the advisor can be relied upon, after repeated satisfactory past exchanges (Crosby et al, 1990). This may imply that referrals are more likely when relationships have matured, but does not explain why referrals occur when relationships are in their infancy. One concept that is worthy of inclusion is that of the 'market maven', an individual who 'enjoys', offering unsolicited advice, particularly since those in receipt of this type of communication are making communication are likely to act upon it (Buttle, 1998:249). On the other hand, Kumar et al (2010) have argued that positive word-of-mouth does not always change consumer behaviour. In practical terms, a firm could benefit from 'maven' behaviour only in the event that clients could be selected who were prospective mavens, and it would seem unlikely that a reliable form of psychometric testing exists to identify this characteristic (Buttle, 1998:249). This thesis restates the proposition that recommendations are more likely to occur following a request, which is supported by

the work of Mangold et al (1999) who assert that requests for information are the principal reason for a recommendation while making it clear that no one is going to offer a recommendation without a reason. There is an inconsistency in their argument, however, in that they then list factors that might encourage clients to talk about a service having previously argued that people 'seldom - if ever' offer information.

Graham (1996 in Johnson et al, 2003) suggest that most salespeople ask for referrals when they close a sale. However as both closing and sales are more readily identified with one off transactions, product purchases and persuasion, rather than professional financial advice, assuming some financial advisors do ask for referrals, it is arguable that they would more likely be sought sometime after contracts are agreed, since financial advisors cannot act for a client until contracts are exchanged. If those engaged in selling do ask for referrals, this helps to distinguish between advisors and salespeople, since this thesis will later reveal that the majority of IFAs tend not ask for referrals at any stage of the relationship. For IFAs there is usually no single a point at which a sale is concluded since the signing of a client and fee agreement is the prelude to a period of investigation, summarised by a written report, culminating in a discussion which leads to an agreed plan of action. Therefore, it is problematic to judge the point at which a sale has taken place, if it has, given that it often takes many months to craft a bespoke financial plan because care needs to be taken to any minimise the prospect of exit penalties and consider the tax consequences of making changes. In other words, even if they do ask for referrals, advisors are unlikely to do so at the same point as salespeople.

Others researchers have argued that referrals can be solicited before or after a sale, following confirmation that a positive relationship is formed, evidenced by oral expressions of satisfaction from the customer (Buttle, 1998; Johnson et al, 2003). This suggestion implies that no referral request should be made until a customer elects to declare satisfaction in words, although it is unclear why a declaration of satisfaction would necessarily result in a coincidental referral. It seems unlikely that a customer could be, satisfied at pre or post-sale exchange, other than superficially, as

they have not at that point experienced any meaningful reasons to be satisfied. Indeed, Johnson et al (2003:262) further and suggest referral requests can be made to those who elect 'not to purchase'.

Again the emphasis is on the purchase of a product rather than a continuing service. It is likely that if a name (introduction) is provided, following a request it would be 'unqualified' in nature and based on guesswork, since unless the client has been approached by a prospect the client cannot know if the prospect has any interest in obtaining financial advice. It would seem that academics may have misapprehended the nature of a *service* such as financial advice, the quality of which cannot usually be judged until a later date, with the immediate utilisation and satisfaction that the purchase of a *product* can offer. Another consideration is that the act of asking for referrals could have unintended consequences, in that clients may not always respond favourably to referral requests. As the potential concerns may not be obvious to readers operating outside financial advice, they are summarised below. It is not inconceivable that the act of requesting a referral may be considered an impediment to referral provision given that clients may view a referral request negatively. Among other reasons, a referral request may lead clients to speculate; that client retention is an issue, questioning why the advisor is encountering problems in acquiring new clients, and concerns that the recruitment of more clients could mean less service for existing clients. It is also conceivable that some clients may view a request for a referral in the same way as they do a gratuity, preferring to offer rather than be asked. This insight was provided by one of my long standing clients, who noted that he always declines to provide a gratuity if asked.

The decision to buy a product or a service may not necessarily be based on perceived value, interpreted as benefits less costs, as relational issues are considered to be equally important. Buyers are thought to be defensive when confronted with a salesperson, and seek to gain control, by choosing when to buy rather than follow the timetable of the seller (Jolson, 1997). Therefore if buyers do

seek to control the interplay between seller and buyer, by extension, it can be argued that asking for a referral may be counterproductive. It follows that, if the quality of the service is acceptable, clients will refer when circumstances allow.

Whilst referrals can originate from suppliers, employees and other connections, this thesis is focused on referrals from existing clients. The literature indicates that referrals emerge from existing clients because they are pleased with the service they have received (Buttle, 1998; Johnson et al, 2003). Whilst this is an intuitively reasonable proposition, it is also possible that positive word-of-mouth could occur to satisfy a referral request regardless of the level of satisfaction. Buttle (1998:247) suggests that positive word-of-mouth occurs when performance is 'above that predicted' and negative word-of-mouth when performance it is below what was 'wanted' (Buttle, 1998:247), though he provides no definition for performance in this context. It is unlikely that this reasoning holds for financial advice, since if performance is associated with investment returns, it is not expected that financial advisors should make predictions over future performance. What is relevant is the gap between expectations and outcome, which presents a further challenge for advisors as they cannot know at what point during the life of the advisor-client relationship their performance will be measured. It is also unclear what mechanism could be used to do so and because the client would have to decide what element of the service an IFA provides is to be measured. As a result, connecting positive word-of-mouth with outperformance is more challenging than Buttle (1998) may realise. Given that word-of-mouth is often misinterpreted as a referral in itself, the role it actually plays and the way it connects with financial advice are now explored.

### 3.8 Word-of-mouth (WOM)

Defining word-of-mouth has troubled academics over many years. It is thought to be distinguished from advertising as it is oral in nature, unprompted, absent of commercial purpose and considered to evaporate when dispensed (Arndt, 1967;

Stern,1994). However later studies, published following the introduction of new technology, contend that the internet has allowed for a written form of WOM which is permanent in nature (Buttle, 1998).

It is thought that WOM can be managed, when a system of rewards are put in place as part of customer relationship management programme, fulfilling twin goals of retaining clients and attracting new clients (Ryu & Feick, 2007). However, it is regarded by Helm (2003:124) as an 'unmanageable marketing phenomenon', which has seldom been investigated quantitatively. It is assumed that Helm (2003) has in mind positive WOM, since she suggests that stimulating customers to offer WOM will lead to referrals, but without providing support for her claim. Whether her argument, that WOM does stimulate referrals, is wholly justified remains to be seen as, whilst some advisors appear to be more successful than others, at managing for referrals, data collected by this thesis show that many make no claims of success. Helm's (2003) study sets out to measure the value of a referral, however this does not appear to contribute greatly to an understanding of the antecedents of referral generation, other than by reminding firms of its undoubted value. It would seem reasonable, however, to agree with her summary that many facets of marketing, such as referral generation, remain inherently unmeasurable.

The credence characteristics of professional services make it difficult for clients to assess them and it seems likely that, if corporate buyers 'often rely' on word-of-mouth for introductions to suppliers (File et al, 1994:301), then, possibly, the same could be said for individuals. However, given that File et al (1994) investigated the behaviour of CEO's, their findings may not be apply to the influences upon individual buyers, who will not have corporate concerns shaping their decision making. The literature asserts that word-of-mouth is both 'crucial in the promotion of services' (Money, 2000:315) and a significant influence in the selection process (Herr et al, 1991; Mahajan et al, 1990). Indeed, Reigen and Kernan (1986) earlier argued that WOM is decisive, particularly in a services context, when benefits are tricky to assess, a position since acknowledged by the later work of File et al, (1992) and Helm (2003). Other authors confirm the impact of WOM in consumer purchasing

decisions by referring to other researchers (Kumar et al, 2010). Kumar et al are supported by Park et al (1988), who found that WOM may surpass the influence of advertising and that negative WOM has more impact than positive WOM, because the average dissatisfied customer tells more people about their experience than their satisfied counterpart (Harmon & McKenna-Harmon, 1994). That assertion is supported by later studies reporting that up to nine people will be told of dissatisfaction (Mangold et al, 1999) whereas good news is shared with only five individuals according to Knauer (1992).

Other authors note that positive WOM is associated with excellent performance but seem to confuse it with referrals (Buttle, 1998). This confusion is also reflected in the work of Kumar et al (2010) who describe WOM and referrals as offering the same outcome for firms though they do not make it clear whether or not positive WOM will result in an introduction to a prospective client. Other academics have questioned the value of WOM in knowledge-based occupations, arguing that it is less useful when the service is technical and most effective when many sources contribute to WOM (Sweeney et al, 2008). Financial advice is undoubtedly a complex knowledge-based service and it is unlikely that friends will all utilise the same advisor, which limits the prospect of multilateral support for providers of WOM.

Brown and Reingen (1987:350) suggest that word-of-mouth is 'seven times as effective' as advertising in newspapers and magazines, but their research was focused on household goods and it is uncertain whether that finding would apply to services. Howden and Pressey, (2008:271) are also doubtful that services and household goods can be compared, observing that earlier studies of 'physical goods' may not be 'generalizable'. Significantly, WOM is also held to be 'more influential' than established media sources, such as 'Which?' magazine, which may be considered to be impartial (Buttle, 1998:242). Possibly connecting with Buttle's idea of 'maven' behaviour, some referrers are thought to be influenced to provide WOM, anticipating good feedback from the recipient of the referral, which is thought to reinforce the likelihood of staying with the 'service provider' (Helm 2003:125).

In a study exploring the impact of referral programs, Ryu and Feick (2007:85) differentiate between WOM that is 'natural', such that is occurring without motivation, and referrals gleaned from reward. The authors consider whether or not reward programs can influence participating customers to make 'product recommendations' to others and concludes by contending that a contribution to WOM and exchange theory is warranted (Ryu & Feick, 2007:84). Justifying this conclusion without establishing a link between WOM and referrals appears an oversight, given the focus of the article, although the authors do acknowledge that, unless the recipient is open to a recommendation, the chain will break. The implication for advisor referrals is less certain, given that financial advice is characterised by an absence of tangibility, and invariably requires a meeting to explain the complexity of the service. This observation is supported by the work of Devlin (1997: 1091), who remarked that a number of services, where complexity limits consumer understanding, including those of a financial nature, may be described as 'mentally intangible'. This elegant description encapsulates and emphasises the difficulty in measuring the value of complex professional services. This thesis therefore argues that, in the context of services, a referral should not be viewed as simply a product recommendation stemming from word-of-mouth, but are deserving of a separate and elevated status, justifying their significance and importance to advisors.

Price is considered an important element in selecting a service provider, as it may be used to dampen or increase demand (Grönroos, 1994). While this may be true for service firms that distribute products, it is unlikely to be material for financial service companies since, arguably, advice is not a product and the price of advice usually remains in a narrow range for competitive reasons. It should also be noted that regulatory influence appears to be having an impact on pricing as the FCA is taking an increasing interest in the level of advisor charging. Financial advisors now have to disclose the fee before advice is dispensed. In order to obtain a bespoke quotation, a potential client has to spend time with an advisor agreeing the objectives and work to be undertaken. It is unclear whether potential clients are prepared to spend time comparing the services of different advisors, emphasising the importance of referrals. Consequently, price competitiveness may not have as much impact in advisor selection as in other services. While price is undeniably important (Grönroos,

1994) other factors including expertise and the level of service may be considered of equal importance by clients. The importance of pricing in services is also highlighted by Berry (1995) who, as part of his core strategic approach to the marketing of services, suggests that prices could be tailored for existing clients to promote loyalty. This approach is in practice followed by financial advisors, who commonly reduce fees for existing clients when portfolios reach a certain value. With the absence of ex-ante methods for assessing advisor competence, one approach is for consumers to utilise the 'cognitive reflection test of Frederick (2005)' to measure 'rationality' of IFAs when engaged in advisor selection (Bluethgen et al, 2008:20). A limitation of this paper offering this suggestion, however, is that it was written before the commission ban was introduced in the UK, so the conclusions that remuneration influences advisor behaviour is no longer as compelling.

Finally, what does seem likely is that, word-of-mouth opportunities are fettered by the boundaries of each person's network of contacts thus placing a cap on the potential for referrals.

### 3.9 Sales prospecting and effectiveness

During extended searches for literature on commercial relationships it became apparent that studies connected with sales, sales prospecting and sales effectiveness could offer a valuable contribution to this research. Referral generation is considered an efficient way to garner new clients as marketing expenditure and time is minimised. As referrals are an excellent source of motivated prospective clients and form an important part of new business acquisition it seems appropriate for this study to review literature from journals on selling effectiveness and prospecting. Having previously reviewed literature that could be described as tangentially connected to referrals, it seemed, on the surface, that this body work could be of particular relevance to this thesis.



A detailed review of studies related to selling and relationships found that no single source was especially authoritative and that contributions from a wide range of journals and authors would benefit the study. Studies were found that centred upon buyer-seller relationships in financial services which, on the surface, appeared to be particularly relevant to this study (Rajaobelino & Bergoron, 2009). However, on further investigation it was discovered, in the study notes, that the financial advisors referred to in this research are in fact 'bankers' (Rajaobelino & Bergoron, 2009:375). Despite the obvious academic rigour it shares with other literature focusing on banking, such as Söderberg (2013), this study appears to view providing financial advice as a role to be undertaken by banking staff rather than a discrete occupation. The declared aim of the study is to investigate relationship quality between 'financial advisors and customers', but in the next sentence those customers are described as 'clients', suggesting that Rajaobelino and Bergoron (2009:360) may be unclear who the bankers are serving. The authors remain content to use client and customer interchangeably, without explanation, implying that they see no need to distinguish between a client and a customer. Alternatively, they may view bank advisors to be product distributors, given that a customer is defined as one who 'purchases a good or services' (Dictionary.com, 2013), while a client is a user of 'professional advice or services' (Oxford Dictionaries, 2013), which supports the approach the thesis adopts and clearly distinguishes between the constructs. However, in defence of Rajaobelino and Bergoron (2009), it should be made clear that Berry (1995:236), whose work is distinguished by many citations, refers to 'serving customers as clients', arguably implying that he perceives clear differences in the way each should be treated, without explaining how they differ from one another.

Rajaobelino and Bergoron (2009) focused their work on advisor and client perceptions at one moment of time; however as Zeithaml (1988:1) observes perception is considered to 'change over time' this may reveal a limitation in the research design. Rajaobelino and Beroron (2009:375) explain the client data originated when '418 participating bankers' each sent a questionnaire to four customers of the bank, which makes it difficult to perceive how customers of a bank could be considered as discrete clients of financial advisors. The study describes its intention as being to examine the quality of 'financial advisor and

clients' relationships and asserts it is the 'first' to do so, yet the financial advisors are bankers and the clients are customers of the bank (Rajaobelino & Beroron, 2009:360). Employees of a bank are required to follow procedures laid down by the bank, usually with the intention to distribute products manufactured by the bank. It is likely that only very limited discretion is available to individual bankers, meaning that retention will undoubtedly reflect the general policies of the bank rather than the discrete relationship between banker and customer. In light of the above, it was concluded when reviewing similar papers, for example Söderberg (2013), that publications from banking journals were unlikely to appreciate the nuanced relationships between clients and independent financial advisors when they are not employed or connected to a bank.

The literature of personal selling strongly identifies selling with sales, products, order taking and persuasion, but acknowledges a shift towards 'partnering' and building relationships for the longer term. Weitz and Bradford (1999:241) portray a world where partnering leads to 'value creation' and the building of relationships, which fits well with how IFAs seek to relate to their clients. Partnering is also considered to be the bedrock of 'relationship selling', which is characterised by its long term nature (Jolson, 1997:77). This opinion will strike a chord with advisors, as they are also seeking longer-term client relationships based on mutual dependency. The marriage metaphor supports the notion of dependency, in the shape of the vow to 'be prepared to deliver on every promise' or risk 'divorce', which Jolson (1997:81) sees as encapsulating how relational selling should be conducted. Weitz and Jap (1995) have observed that salespersons who create firmly grounded relationships make it harder for competitors to replicate the same service and thus enhance the rate of client retention. The fact that authors view selling to be a process that leads to an 'order' for a 'product' symbolises the differences between advisor-client relations and commercial relations (Jolson, 1997:79), in that advisors market time in return for fees and, when products are involved, they are the result of the advice process. It is arguable that the advice process could be characterised as a product, but advice itself does not require a product and, if products form part of advice, each one has to be justified, from a regulatory perspective, in the overall context of the advice. Therefore, the characterisation of selling, as described in the literature, does not

reflect the reality of an advice process that does not involve an order to be placed or the selling of a product.

This thesis is conscious of both the business and professional dimensions germane to a Doctorate of Business Administration and proposes that selling is really only authentic when an individual salesperson sources a client without the aid of the firm. Within professional services, a field that is predominately populated by smaller firms, employees who exhibit prospecting skills are particularly valued as these firms lack the resources to employ a marketing department or conduct any form of orthodox marketing. Thus, unlike in larger firms marketing goods and services, where separate departments exist to oversee account management, marketing, and sales, these roles are often carried out by one person in smaller enterprises. Indeed, commonly advisors would be expected to source, service and attract additional fees from existing clients. Perhaps, sympathising with the difficulties service providers face, in new client capture, Jolson (1997) describes prospecting as very challenging while also observing the paucity of literature related to prospecting.

Indeed, in my experience when a firm provides the introduction, prospecting is absent and the firm has, in effect, a product/service advocate, rather than an authentic salesperson. That may explain why some larger firms prefer the term representative or associate to describe their salespeople. Salespersons that do not source new clients have a role of play in client servicing but are clearly less profitable to the firm than those who fulfil both roles.

Advisors seek to retain existing clients and generate new fees from existing clients but without adding new clients they will not increase the numbers of clients they serve. New clients are needed to replace those who depart as a result of; relocation, death, illness, depleting capital, dissatisfaction, to counter the impact of inflation and other reasons. Advisors who can generate new clients are therefore in much demand though, in my experience, they are only often to be found operating their own practices or so well compensated by

their current employers that they are not seeking a new role. Following a number of recruitment failures eventually I found myself consciously trying to recruit advisors, who could demonstrate prospecting and retention skills, evidenced by the number of clients or personal contacts that were willing to follow them. This strategy significantly improved productivity and required less marketing attention. However this strategy was not without its problems, as employees with prospecting skills often have aspirations to build their own practice. Indeed, this appears to be a common way that new firms evolve. In fact it is hard to imagine a new practice starting today, as mine did, without any clients, especially in view of the relatively higher regulatory hurdles and other fixed overheads that they would now face. Therefore, firms either need to provide clients, for their advisors, or recruit advisors who can find clients. In my experience many smaller firms end up with the former, with founder(s) or managers delegating their less profitable clients to advisors without prospecting skills, leaving managers to source new clients. This can result in a situation whereby the owners struggle to sell the practice, without the implicit consent of the staff, as it is the younger advisors that have the relationship with many of the clients.

The idea that prospecting forms an integral part of selling garners support from authors who view selling as 'an activity that seeks out prospective customers, persuades them to buy products and recognises the victory with a reward' (Peeler, 1996 in Jolson, 1997:75). Whilst this definition confirms that selling involves the sourcing of prospects, elements like persuasion and conflict are incompatible with the notion of an impartial advice process. While persuasion also features in a definition of selling by Griffin (2013), it is arguably necessary to distinguish between salespersons who engage in prospecting and those who do not. This takes the form of describing those who directly engage in sourcing new business, as authentic salespeople, as it distinguishes between salespersons who self-generate clients and those who do not. This is a view supported by Jolson and Wotruba, (1992:59) who describe 'prospecting as a fundamental step in personal selling'.

The sourcing of a prospective client does not of itself ensure client capture, as it is yet to be determined whether the prospect is appropriate or requires advice, but, advisors who attract referrals are very valuable members of any firm. Johlke (2006:314) asserts that good prospectors translate into good overall sales performers and define prospecting as 'identifying a sufficient number of quality prospects to be directly contacted'. The study is concerned with business to business sales in an industrial context, where identifying a 'quality' business target may be aided by publicly available information. However, the relevance of this definition for advisor-client prospecting is debatable, as individuals cannot be qualified sufficiently as prospective clients, for financial advisors, until a discussion takes place. The literature indicates that 'good prospects' will have the economic ability to purchase a product but, since individuals do not usually disclose their income and capital, prospecting, at best, can be an informed guess, which calls into question how 'good' individual 'prospects' can be identified (Jolson,1997:79). Acknowledging this concern, Jolson and Wotruba (1992:59) observe that systems for lead generation are often found to be flawed as they produce 'too many unqualified prospects'. A further key difficulty with Johlke's (2006:314) description of prospecting is that 'directly' contacting potential clients without an introduction is unlikely to be effective, as 'residential buyers view selling as an interpersonal struggle...against the pitch' (Jolson, 1997:80). More importantly for financial advisors, cold calling, 'where a financial promotion is made during any dealings with a customer which the customer did not begin', is not permitted under FCA rules unless the prospective client initiates the process (FCA, 2013). The above are elements of regulatory oversight that financial advisors operate under and explains the difficulty this thesis has encountered in locating literature of relevance to regulated advice.

This thesis has found that the corpus of academic work relating to prospecting and sales has taken place principally within an industrial sales context, and that the authors are not seeking to provide definitions or constructs that would necessarily be transferable. The language adopted by those authors is inconsistent with that of professional practice. Therefore, while this thesis has chosen to use terminology presented by the literature it is interspersed with a vocabulary that is more consistent with professional practice.

A professional salesperson has been defined by Churchill et al (1997:367) in terms of 'vocational' and 'sales presentation skills', the former relating to technical knowledge and the latter to the sales process. It is assumed that 'professional', in this context, describes someone who works full time in sales, rather than an indication of quality, for what distinguishes a professional salesman from one who is unprofessional is unclear. Factors that influence sales performance are considered to be 'controllable' including skills, sales region and 'uncontrollable' such as good fortune and customer issues by Johlke (2006:318), who considers closing the sale to be a 'primary strength of personal selling', defined as 'the ability to properly and persuasively ask for the sale' (Johlke, 2006:319). The process of asking is also highlighted by Jolson (1997:79) who observes that closing a sale requires asking more than once if necessary. These observations indicate that these authors believe that consumers need to be persuaded to buy, and persistence is required. This view is supported by Weitz and Bradford (1999:243), who argued that selling has a results focus to 'persuade customers' that they need the product offered. However persuasion is not an approach that appears to fit with the marketing of complex services as Johlke (2006:315) seems to recognise when he observes, in discussing the limitations of his study, that when 'selling services' different results may be produced. The thesis now departs from reviewing commercial, practitioner and academic texts in order to synthesise the factors emerging from prior knowledge in this field.

## Chapter 4 - Summary and synthesis of the literature

Having previously explored texts in various fields connected to referral generation this chapter seeks to summarise prior knowledge and draw conclusions.

### 4.1 Summarising the literature

Academic studies often centre their research upon business to business or business to customer relationships, the latter principally centred upon banking or large, institutional in nature, organisations. The data for analysis are often obtained from institutions or customers of the institution, which raises concerns that when data is sourced and selected, by the institution, the research design may be fairly exposed to charges that it is of limited scope for generalising the findings. The overall sense from the academic literature is a paucity of data from consumers of financial advice and the dominance of survey data as a research method. One academic work was identified that specifically dealt with referrals (Wilson, 1994), but it transpired that there was a complete lack of referencing, no data was presented to support the arguments and in short it appeared to represent views of the author. With that in mind, unsupported statements are made about the numbers of referrals arriving in professional practice while unspecified 'research' is reported to exist evidencing that existing clients provide the majority of referrals (Wilson, 1994:13).

When reflecting upon the academic texts it is noted that academic authors distinguish themselves, from the practitioner-based literature, by a tendency to report findings quantitatively, often with a degree of complexity that assumes readers are competent mathematicians. Using these methods limits the applicability of the findings to readers with superior numerical skills and may be challenged by those who do not agree that social constructs are measurable. The academic literature has a tendency to focus on industrial sales, the sales process and views word-of-mouth as proxy for a referral in the context of sales. Papers distinguishing between sales

and the advice process are rarely found and few academic authors have studied the complex relationship between regulated advisors and their clients. One of the few is Clark (1999), who advocated a distinction between sales and advice, in the context of financial advice, by, somewhat controversially, arguing that advice should stem from independent practitioners while agents who are not independent should sell without advice. He also proposes that his plan should be promoted by the regulator for the benefit of consumers by 'outlawing tied selling' (Clark, 1999:78). This radical view would obviously be supported by IFAs, although it would be interesting to understand if Clark retains this position in light of the changes introduced by the RDR. This argument could be extended to offer the fascinating prospect that advice should not involve a product sale, a proposition that appears to be influencing life planning advocates in the USA (where objectives and values are explored in depth before a financial plan is constructed), which in its purest form would limit advisors to diagnoses without implementation.

The significant differences between sales transactions and advisory relationships, constrained by contract, are largely unexamined in the literature. Possibly in an unguarded moment, the chief executive of the FCA (Wheatley, 2013) is reported to have questioned whether banks really provide advice or just seek sales, while speculating whether the public at large could afford fees for advice. This admission from the regulator arguably supports the existence of differences between advice and sales and acknowledges that banks are more likely to be connected with sales rather than advice.

However, while differences do exist between sales and advice there are components of the sales process that are correlated to the latter, so this thesis seeks to extend knowledge of the advice process by exploring the connections and highlighting differences where they exist. To that end, the experience of the author is drawn upon when developing Table 4.1 which juxtaposes the terms used in the literature to describe the sales process against the terminology of practice. Whilst it is noted that the literature does indicate that relationship marketing is more akin to the advice process, significant differences exist between the means used to distribute a service,



involving regulatory oversight, and the sale of products. This has led authors to compare the advice and the sales process and to clearly distinguish between the collaborative approach of the practitioner and the persuasive ‘interpersonal struggle’ (Jolson, 1997:80) that is said to characterise sales. That comparison underscores the attitudinal differences while highlighting the difficulties advice practitioners would experience in relating to the description of sales process in the literature.

Table 4.1 Selling versus advice (*Source*: original)

<b>Selling</b>	<b>Source</b>	<b>Advice</b>	<b>Source</b>
<b>Vocabulary</b>		<b>Vocabulary</b>	
Adversarial	Davis & Waller (2004)	Facilitative	Reiss (2000)
Persuasion	Weitz & Bradford (1999); Griffin (2013)	Consensual relationship Advice	Howden & Pressey, (2008); Gummesson (1981)
Closing	Jolson (1997:84)	Cooperation	Reiss (2000)
Goods (product)	Berry (1995)	‘Expert service’ No standardized solutions	Bluethgen et al (2008:2); Jaakola & Halinen (2006)
Sale of Goods Act	None	Binding arbitration Contractual/formal relationship	Financial Ombudsman Service (FOS) Miles (2003)
Tangible ‘seen, felt, tasted and touched’	Zeithaml et al (1985:33).	Uncertain outcomes Intangibility ‘Mentally intangible’	Bagdoniene & Jakstaite (2009) Zeithaml et al (1985); Devlin (1997:1091)

The scholarly academic work of Zeithaml et al (1985) has enlightened this study by distinguishing carefully between the marketing of goods and services. They identify the characteristics that distinguish services from tangible goods to be those of 'intangibility, inseparability of production and consumption, heterogeneity and perishability' (Zeithaml et al, 1985:33). In turn, they have elegantly framed services as 'performances', rather than 'objects' which 'cannot be seen, felt, tasted or touched' in the same way as goods (Zeithaml et al, 1985:33). The weight of academic research recognises differences exist between marketing of goods and services. It is therefore surprising that commercial consultants assert that referral programmes targeted at the advice community are effective regardless of the product or service (Anderson, 2012). However one issue authors in this field may have not considered is the evolving long-term nature of financial advice, given the improbability that advice is always conceived and consumed at the same time (Zeithaml et al, 1985) and their work has underlined the difficulties this study has found in positioning financial advice within the domain of services marketing

The nature of professional financial advice is that it is directed at satisfying future goals and objectives, in a holistic sense, whereas a product sale is more likely to satisfy shorter-term goals, without placing the sale in the context of the clients overall planning. The connectivity between planning and advice is more apparent than in planning and sales. For commercial reasons, IFAs are more interested in longer term relationships since they are likely to experience difficulty in justifying their charges if the service is only associated with a one-off sale. This may also explain to some extent why advisors usually employ minimum investment and/or fee levels in order to discourage transactional clients. For example, the time expended to meet with a prospective client, conduct research, prepare a report, satisfy compliance requirements, and arranging a further meeting to discuss the report could encompass a whole working day. It is not uncommon to find hourly fees at £150 per hour, or higher, and the cost of advice may consequently be viewed by smaller investors as prohibitively high.

Historically, advisor charges were based on a percentage of the amount invested and, although commission is no longer payable, the legacy of asset value charging remains popular. This has implications for consumers of advice, since regulators have assumed that advisors will offer advice at prices that smaller investors are willing to pay, without realising that advisors, like any other service provider, have to consider overheads when setting prices. Neither consumers nor advisors want charges to be disproportionately high in relation to the capital available for investment, but the regulatory demands are such that it can take the same time to deal with a smaller investor as a large one. For example, a £10,000 investment might require anywhere between six and 10 hours of chargeable time to complete the transaction in compliant manner. This could result in advice fees ranging from £680 to £1,200 excluding VAT before any transaction costs of the investment are added. Like other professions, IFA fees are calculated by reference to fixed and variable overheads, of which the significant elements are professional indemnity insurance, regulatory and compliance costs, professional staff, CPD and specialist training.

Before commission was banned, using the £10,000 investment example from above, advisors could have elected to receive approximately 3% per cent of the capital sum, £300, with larger investments often being used to subsidize the smaller investor. Today, under the fee regime, a subsidy is less likely as each client fee has to be justified and agreed in advance. The introduction of fees has consequently disenfranchised a large number of consumers who cannot or will not pay professional fees. This view is supported by the architect of the Retail Distribution Review, Lord Turner, who recently commented that the mass market for individual advice will eventually disappear (Citywire, 2014).

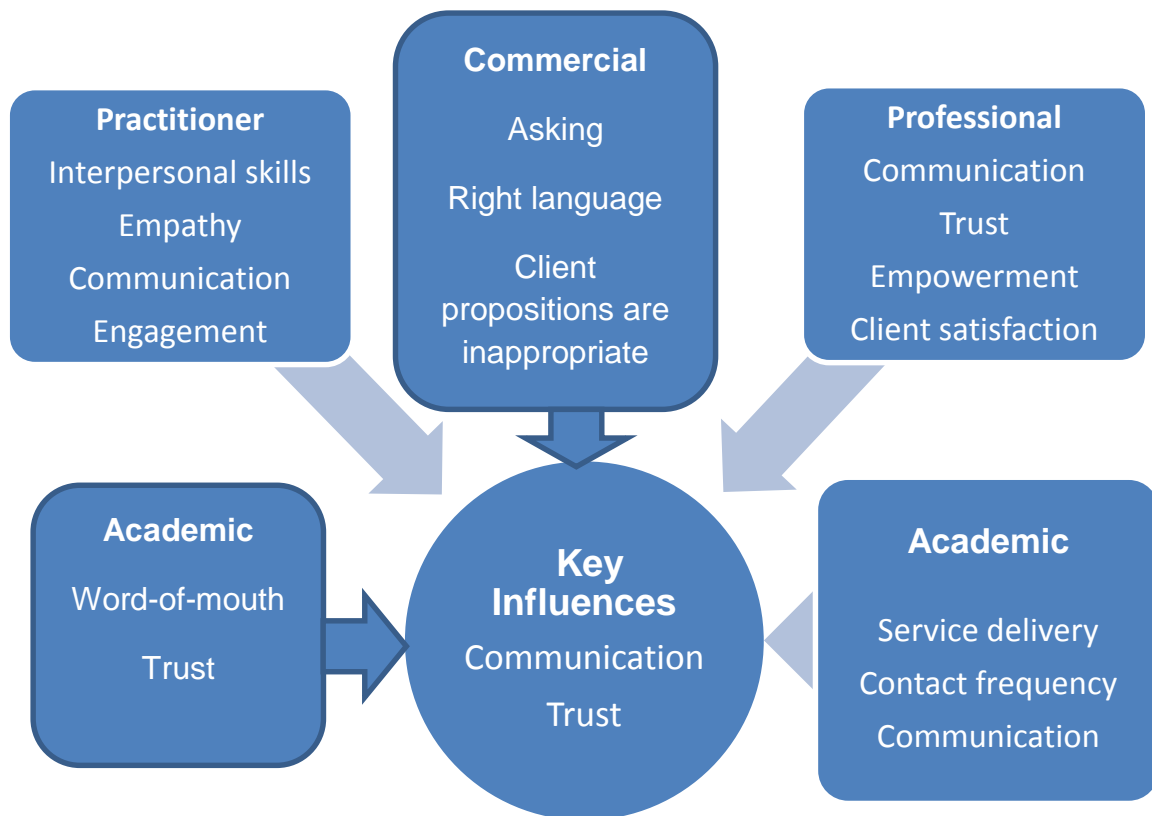
The heterogeneous character of financial advice is undoubted for by variability in service levels, while that and performance are probably key elements in

distinguishing between advisors. It is more challenging to perceive of 'perishability' as a characteristic of financial advice when, given advice can be reproduced at will with little difficulty (Zeithaml et al, 1985:34). What the literature has achieved is to stimulate new avenues of thinking which could be incorporated, not by revolution, but by subtle modification. For example, utilising Kahneman's (1979) modes of cognitive function to understand more of how a client learns new information could influence the nature of advisor-client communications. Therefore, whilst the literature has not produced an empirically grounded framework capable of directly explaining the factors that sustain advisor-client relationships or referrals, it has opened up a range of theoretical ideas and led this research to revise the original approach to data collection. The academic literature is now blended with the commercial and practitioner literature to search for key influences in connection with enduring relationships.

#### 4.2 Synthesising the commercial, practitioner, professional and academic literatures

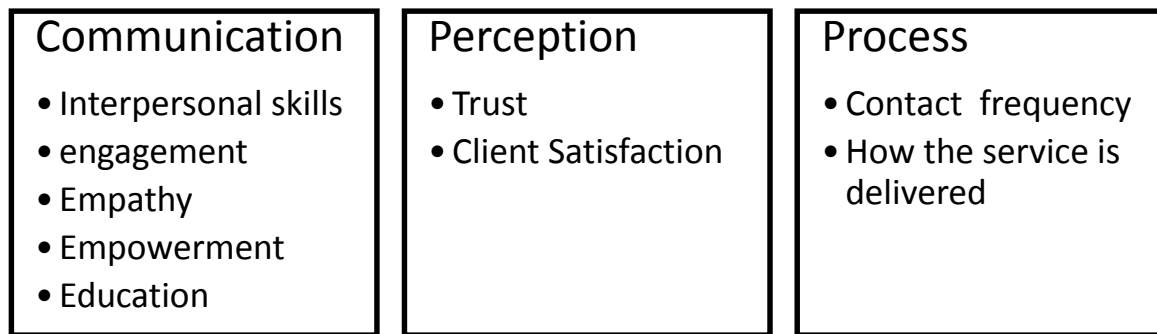
When evaluating the factors that emerged from the commercial, practitioner, professional and academic texts a number of recurring themes could be identified. Figure 4.1 depicts the prominent factors arising from each stage of the review with those cited more than once in each review described as key influences.

Figure 4.1 Mapping the commercial, practitioner, professional, academic literatures



This process provided an opportunity to categorise the factors into themes for later analysis. The themes are deduced from the literature by synthesising the relevant factors into closely correlated groupings. In this thesis, they are defined as follows: those involving oral exchange as communication, those not readily quantifiable as perception, and those pertinent to service delivery as process. It should be noted that the themes were selected after carefully considering how best to represent the literature and from the practical experiences of a senior practitioner in the field, as represented schematically in Figure 4.2. The intention was that these themes would inform the research design in general and the questionnaire design in particular.

Figure 4.2 Themes emerging from the literature review



When reflecting on the reasons behind the noticeable absence of research specifically into advisor-client relationships, one possible explanation is that funding for research is more readily available from larger organisations, such as banks. In addition, researchers are likely to find accessing data from large customer databases more straightforward than obtaining data from clients of IFAs. Another reason for the limited amount of literature may be the scarcity of advisors willing to contribute to academic studies, which they perceive to be of limited practical value, encouraged by a sense of disconnect with the language and the writing conventions of academics. The absence of a dialogue between practitioners and academics may be at the root of the problem. If research were directed at issues of concern to practitioners, undoubtedly greater involvement between academia and practice could definitely be envisaged. Despite the rarity of contributions to academic journals by practitioners, the knowledge they have of referrals in practice, is clearly of value, hence this study elects to explore what practitioners have to say about referral generation during the data collection phase. To conclude the synthesis of the reviewed literature, this chapter finally turns to the parameters of current knowledge in the field.

### 4.3 The knowledge boundaries

The literature review has identified opportunities to contribute to knowledge in a theoretical and professional context and it has provided the boundaries of knowledge and the lacunae to be explored. These gaps are represented by literature which regularly develops concepts emanating from business-business relationships (Devlin, 1997; File et al, 1994; Foster & Cadogan, 2000; Johnson et al, 1997) rather than client to provider, as this study intends. The literature has devoted scant attention to services in isolation, preferring to focus on the differences between the marketing of goods and services (Zeithaml et al, 1985). The absence of literature concerning relationships between practitioners and clients is highlighted by Christiansen and DeVaney (1998), who also note that the limited existing literature has a tendency to focus on practitioner interests. Another concern is the absence of clarity concerning what is meant by a firm, a company or a personal service firm (Barnes, 1997). It is left to the reader to make assumptions over the size and scale of enterprises which has implications for research into matters that impact individuals. Researchers and commentators also identify underreporting of differences among type of services, when they argue, for example, that 'important differences exist among service firms', yet they observe that little research has been carried out in this area (Zeithaml et al, 1985: 43).

The tendency has been noted among academic authors (Berry, 1995; Churchill & Szymanski, 1990) to use 'customer' and 'client' interchangeably despite what constitutes a client or a customer being a matter for debate. It was also found that marketing literature describes relationships as selling or completed by salespeople (Beatty et al, 1996; Bendapudi & Berry, 1997; Foster & Cadogan, 2000; Johnson et al, 2002; Söderberg, 2013; Taylor & Woodside, 1981) and finds no place for advice or advisors. This omission appears to disregard the nature of financial advice and other fee based services, which do not necessarily involve a sale or a product. IFAs are compensated by a fee paid by a client, whereas a salesperson's remuneration is usually related to the value of a product. It is arguable that when a service, like advice, is packaged it could be interpreted as a product. Yet no consensus exists

concerning how to distinguish between product and service, salesperson and advisor and, most importantly, customer and client.

The reader of academic literature is confronted by further confusion over terminology, as exemplified by the uncertainty surrounding distinction between professional from non-professional advice, a bank representative from an advisor or, again most importantly, advice from sales. These concerns are reinforced by Watson (2002), who notes the confusion in describing occupations in professional terms perhaps exemplified by Söderberg (2013:147) who suggests that financial advice is a 'practice' that takes place within a 'financial industry' rather than a financial profession.

Helm (2003), Kumar et al (2010), and Ryu and Feick (2007) are examples of studies in which word-of-mouth is considered a proxy or a synonym for referrals, yet, it is quite clear that positive oral communication does not necessarily result in a referral. Unlike word-of-mouth, which once uttered is completed, a referral may be unused, or a second opinion sought, and a referral may never transpire. Furthermore, while word-of-mouth can be ignored it cannot be withdrawn, once spoken, whereas a firm may reject a referral should they consider the prospective client to be inappropriate, for example, should they determine that the prospect has insufficient capital to invest. Therefore, this thesis argues that a referral is more complex and of greater business significance than even positive word-of-mouth.

Despite the assumption that WOM communications are vital, in services marketing, authors have questioned whether workable referral strategies exist and if so what form they could take (Zeithaml et al, 1985). These concerns also connect with the difficulty this thesis has found in identifying literature pertinent to new client capture in this field. Correspondingly reservations about the quality of the published practitioner work have arisen, and this thesis has argued several times that much of this work is self-publicity rather than objective research. Examples have been provided from the practitioner literature that include uncritical support for professional



bodies, data that supports one dimension without counter argument, referencing within peer groups and the promotional undertone to much of the work. Other flaws undermine the value and credibility of the existing academic research in the field. For example the literature fails to address a number of important points, for example, it is loose concerning use of terminology (client/customer); is confused about the distinction between standard financial services and financial advice; concentrates excessively on large financial corporations ignoring small firms; misunderstands the basis of remuneration of financial advisors, i.e. failing to appreciate the significance of the difference between advice-for-a-fee (which despite the ban on commission since 1<sup>st</sup> January 2013 has been a working model for some IFAs for many years) and commission-based advice; and importantly fails to distinguish between the role of the advisor and salesperson. In addition, this thesis advances the argument that both practitioner and academic research in the field have ignored or misunderstood that financial (or other forms of professional advice) are deserving of different treatment than financial product sales.

This thesis has established a prima facie case that the topic of referrals has been neglected or dealt with in an unsatisfactory manner in prior research. Practitioners believe referrals are very important and believe they have the power to influence them despite an absence of empirical support. Academics have tended to deal with referrals superficially, perhaps by defining referrals naively, or by assuming that referrals and word-of-mouth are the same, or that prospecting is somehow related to referrals. Therefore this dissertation aims to explain to practitioners what is and what is not possible with respect to referrals, and provide academics with an explanation of exactly what referrals are in the context of credence services as financial advice, and why they are so important. Chapter 5 next describes the philosophical assumptions underpinning the research and provides an outline of the reflexive concerns that researchers face, and the methods adopted for the field research.



## Chapter 5 - Methodology

Chapters 3 and 4 having summarised the literature and established the boundaries of the research, the current chapter seeks to connect matters of philosophy with the methodology and introduce the research method.

### 5.1 Philosophical assumptions

This study will adopt an anti-positivist stance, viewing social reality through the lens of the individual. Anti-positivists dispute the notion that the world is measurable, arguing that reality is complex and defies predictability, hence individuals draw from personal experiences to inform their world view, which requires understanding and sense-making (Cohen et al, 2008). Accordingly anti-positivists view the attainment of knowledge as more complex than can be achieved by measurement and observation alone as each individual has their own perception of reality (Trochim, 2006). Consequently, the overarching philosophy of this thesis will be subjectivist and ideographic rather than objectivist and nomological. According to Burrell and Morgan (1979:5) social scientists assume that individuals either have freedom of choice ('voluntarism') or are influenced or shaped by the environment ('determinism'). In light of these uncertainties, philosophical debate continues with anti-positivists confronting the notion that an objective perspective has merit in social science. Instead anti-positivists view humans as individualistic and consequently argue that a subjective perspective to research is essential (Burrell & Morgan, 1979:5). Other scholars offer support for the ideas of Burrell and Morgan (1979), that ontological and epistemological perspectives influence methodology, while also highlighting the importance of selecting a suitable methodology (Denzin & Lincoln, 1998). Figure 5.1 presents diagrammatic classification by Burrell and Morgan (1979) summarising four relative philosophical positions of the conflicting views commonly adopted by social scientists

Figure 5.1 'The subjective-objective dimension'

Subjective 	Assumptions	Objective 
Nominalism	Ontology	Realism
Anti-positivism	Epistemology	Positivism
Voluntarism	Human nature	Determinism
Ideographic	Methodology	Nomothetic

(Source: adapted from Burrell & Morgan, 1979:3)

It follows that as the intention is to build theory from data, a predominantly inductive approach will be utilised, despite the likelihood that data from human respondents can contain contradictions, in order to enhance the prospect for sense making (Trafford & Leshem, 2008).

Before detailing the methodological approach adopted by the study it is pertinent, at this stage, to consider the philosophical issues that challenge researchers. What follows is an exposition of the philosophical considerations this thesis took into account before arriving at an appropriate research framework. In turn this chapter explores the reflexive consideration that unites this authorship with philosophy in order to demonstrate connectivity with the research methodology.

A recurring issue in research is the terminological confusion, is exemplified when Cohen et al, (2008) introduce nominalism and realism as proxies for realism and constructivism whilst Bryman (2008:16) refers to 'objectivism' as an alternative to realism. Grix (2002:1) underscores this concern by noting the 'wide range of meanings and interpretation' in research terminology. For clarity and consistency,

this thesis adopts the generic headings of objectivist and subjectivist when defining the opposing positions (Cohen et al, 2008).

The nature of reasoning sometimes means that authors who hold differing philosophical beliefs will use different research methods to approach the same question (Potter, 1996). This seems a reasonable assumption as many aspects of life are not observable yet humans self-evidently believe phenomena exists despite an absence of tangible evidence. The researcher may hold a position based on a belief with no proof and when supported by logic the belief may become established and taken for granted as being accepted (Potter, 1996).

The philosophical assumptions underpinning research are broadly separated into ontological-those shaped by experience and our view of the world and epistemological expressions-which asks how we know and how we determine truth. For Grix (2002) there is a logical order that philosophical assumptions follow. Grix appears to garner support from Cohen et al ( 2007), Hay (2002) and Hitchcock and Hughes (1995), who contend that only after the ontological position has been determined can the researcher evaluate the epistemological assumptions which in turn 'gives rise' to the methodology, methods and finally the data collection methods (Cohen et al, 2008:1). The central question is: can the social world be independent of the 'social actors' or people within it (Bryman & Bell 2008:19)? This question has produced two main schools of thought: objectivists who believe reality is detached, objective and measureable and the subjectivist position, who posit that reality is largely constructed. The former holds that objects have an independent existence, whereas subjectivists contend that objects are created and not concrete (Cohen et al, 2008).

The epistemological stance a researcher adopts considers how knowledge can be gained and will influence the investigative approach that any research implicitly takes. Three main assumptions of epistemology have developed: positivism, a largely deductive approach with roots in natural sciences, anti-positivism or

interpretivism, an inductive approach related to social sciences, and critical theory which is again largely inductive with an ideological basis, focused upon political and emancipatory concerns, more readily associated with a constructivist viewpoint. (Myers, 2009).

Positivists tend to adopt an objective, measuring approach and challenge the subjective approach of interpretivism which may be perceived as offering vague and imprecise outcomes. On the other hand, interpretivists and other opponents of positivism, unite to reject the notion of a detached, measurable reality and place the individual in the forefront of social reality (Cohen et al, 2008:21).

To summarise this section, objectivists seek tangibility, demanding that research should observe the tenets of natural science, whereas subjectivists view knowledge as personal, constructed within society through language and 'shared meanings' (Myers, 2009:38). As a consequence, some authors have argued that an objectivist approach, using the methods of natural science, is inappropriate for a study into social phenomena in which individuals influence another other (Myers, 2009).

## 5.2. Reflexivity and bias

Consideration of the way research addresses questions of reality and attempts to avoid a researcher distorting findings is referred to as reflexivity. Reflexivity is important to diminish previous knowledge dominating a researcher's awareness of data (McGhee et al, 2007). Reflexive thinking can be viewed in terms of how the research was conducted (methodological), how the conclusions were arrived at (epistemological) and the way in which experiences and beliefs shape research (personal). Reflexivity anticipates that the social researcher needs to remain objective but accepts that the likelihood of success is limited. This struggle for objectivity alerts the researcher to consider the possibility that the findings will be shaped by the researcher who is part of the social world, and views the world

through a lens that is moulded and influenced by prior knowledge (Denscombe, 2010). Whilst the impact of a researcher's background cannot be purged from the research process, it can be dealt with on the one hand by an acute awareness and objectivity and, on the other hand by disclosing and acknowledging that the research process is fashioned by personal experiences (Denscombe, 2010).

Reflexivity straddles all forms of epistemological inquiry and should not fetter critical analysis. This warning note is sounded by Johnson and Duberley (2003) who advise that methodological issues need to be put into context and not accepted unquestionably. This argument is acknowledged by Finlay (2002), who notes that excessive reflexivity can inhibit outcomes and imbue research paralysis. In a similar vein, Finlay (2002) further suggests reflexivity of method is demonstrated by accountability and public disclosure of the research method, underpinned by an acute awareness that the research method will affect the outcomes. A researcher needs awareness of reflexive self and the methodological approach when considering how the research is designed, the role of the researcher in decision making, the choices made, and the reasons for disregarding or discounting alternatives (ESRC, undated). Above all, a researcher needs to be open to all possibilities regardless of personal beliefs, recognising that epistemological assumptions may result in different findings. In taking a philosophical stance assumptions are being made about the nature of truth. Reflexive thinking recognises that any assumption can be challenged by those who have a different truth (Schurink, undated).

Personal reflexivity considers how research affects both the researcher and the researched, involving reflection of how our own values shape our approach (Willig, 2001). Since a researcher interprets accounts provided by others, the research community requires a disciplined approach utilising ethical codes, customs and peer review to maintain the integrity of research (Hardy et al, 2001). Overt transparency and peer review can help demonstrate reflexivity in action. Finally, the reflexive researcher, conscious that assumptions or embedded beliefs may affect research

findings, will accept and acknowledge the consequent limitations of a research study (Johnson & Duberley, 2003).

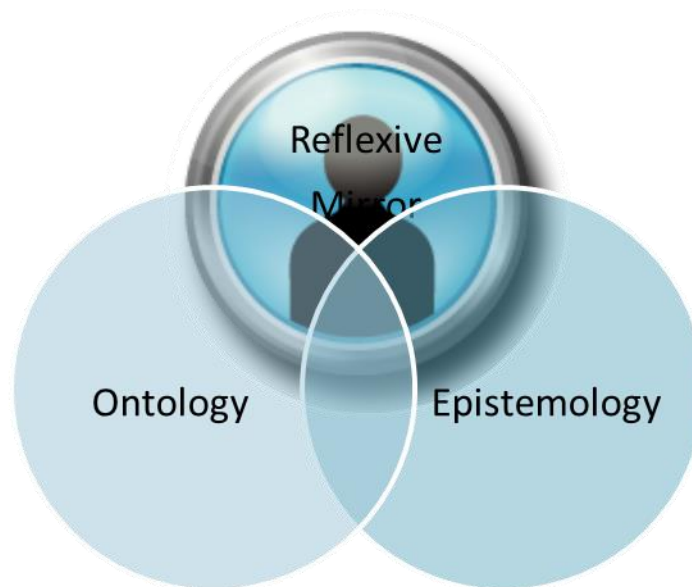
In short, the position this study adopts is subjectivist in nature, one where the individual is placed at the centre of social reality, enabling theory to be developed through the use of an inductive approach. Having now established the philosophical position this study adopts it follows that the next section should discuss the interplay between the philosophy and reflexivity.

### 5.3 The interrelationship of ontology, epistemology and reflexivity

The interconnectedness of the relationships among ontology, epistemology and reflexivity are illustrated within the Venn diagram below in Figure 5.2. Here the importance of reflexivity is captured using the metaphor of a mirror. The researcher is reflected in the mirror and pictures all attendant experiences, social and cultural influences. The researcher then tilts the mirror so avoiding reflection and considers the ontological position whilst retaining the reflexive influences and repeating this process when considering epistemological assumptions. The expression 'looking glass self' (Cooley, 1902 in Cohen et al, 2008 :171) is apt, in that when the researcher then returns the mirror to its original position, to explore why a particular approach has been adopted, he may legitimately ask whether other influences have led to alternative positions being excluded.

In Figure 5.2 attempts are made to explain the narrative, illustrating that the reflexive mirror retains attachment to both ontological and epistemological assumptions in whichever direction the assumptions may flow from. The colours indicate the differing theoretical assumptions while the darker colour signifies the crucial importance of reflexivity in the research process.

Figure 5.2 The interconnectedness of ontology, epistemology and reflexivity



(Source: original)

Something to be explored, in the context of financial advice, is the possibility that both the regulator and the professional bodies attempt to justify their relative positions from a position of detached reality, adopting an objective philosophy, because, as was noted in an earlier chapter, they both imply that professionalism is an independent reality capable of measurement. Professionalism is trumpeted as a necessity, which is in short supply; and yet, surprisingly, neither the regulator nor professional bodies seek to describe or define what method could be used to measure professionalism. Whilst this observation may not be directly relevant to this thesis, it does seem to demonstrate a propensity in the field of financial advice to use assumptive language when dealing with complex social constructs.



#### 5.4 The methodological approach

The aim of the research study within this thesis is to learn more about the factors that influence referral activity, from both the perspectives of both users and providers of independent financial advisory services, and the extent of the control that advisors can exert over the referral process. The paradox of referrals is that, on the one hand, it is not understood whether referrals can be solicited but, on the other hand, certain advisors appear to enjoy more success, in this field, than their peers. Despite the uncertainty surrounding referral generation, large numbers of practitioners, commercial enterprises and academics appear to have implicit beliefs that referrals are manageable. Consequently this research study will seek to clarify the many misunderstandings of this phenomenon. As this area of study is relatively under-explored it requires an exploratory and broad overall inductive approach. The choice of the inductive paradigm indicates the intention to develop rather than test theory.

A methodology embraces the full range of selections that are made across a range of questions from deciding and delimiting the topic of study, methods of gathering data, procedures for analysing the results and designing the complete research plan. Two main approaches are used in research: quantitative, in which a scientific approach pursued using measuring and statistical analysis to produce quantified conclusions; and qualitative, which is more concerned with 'insight' and questions the effectiveness of the quantitative approach when dealing with human beings (Bell, 1993:6). Which approach is chosen will usually be influenced by questions of feasibility, suitability, ethical dimensions and one that is 'fit for purpose' (Denscombe, 2010:4).

The approach this thesis adopts is to question the legitimacy of accepted beliefs that circulate among practitioners and industry commentators concerning referrals, and in turn explore the thinking of academics in relation to referrals. Thus the methodological stance adopted for this thesis is fashioned by an emerging understanding that favours a worldview in which 'social phenomena' are constructed

by, 'social actors' and are constantly evolving (Bryman, 2008:19). This led in turn to the recognition that adopting an interpretive approach would align with an ontological approach that is subjective, as inteprevists place greater emphasis on how to interpret and make sense of the world (Hammersley, 2007). Consequently, it was deemed appropriate to give greater weight to the qualitative approach, which is associated with subjectivity and intepretivism, given that the intent is to explore the question in depth, with consideration of individual experience, emotions and feelings (Strauss & Corbin, 1998). By adopting an inteprevist, epistemological position, the emphasis is placed on the importance of human interaction rather than natural science, and encourages a researcher look beyond the text to consider the meaning and his own reflexive involvement (Saunders et al, 2003). This approach allows theoretical ideas to emerge or be induced from the data (Bryman, 2008) whilst always recognising that interpretation is within the gift of the researcher (Denscombe, 2010)

This thesis seeks to achieve sense-making which lends itself to inteprevist analysis while recognising that conclusions are likely to be non-generalisable. However, since one of the five research aims, concerns the importance of referrals to practitioners, it was felt that the topic was more suited to quantitative analysis. It was consequently reasoned that, without a quantitative component, the research may not meet the needs of practitioners, who are accustomed to and conversant with quantitative data. It was also recognised that the DBA requires a contribution to practice and that the absence of a quantitative element might led practitioners to question the evidential basis of the research. The approach this thesis adopts is therefore pragmatic, combining both quantitative and qualitative disciplines pursued by a survey method, implemented by self-completed questionnaires, augmented by interviews.

A significant reason for considering a predominantly qualitative rather than quantitative research for this enquiry is that it allows the 'context' of the question to be explored (Myers, 2009:5). This technique earns support from Kaplan and Maxwell (1994), who argue that, when a phenomenon is not concrete, that can be measured

or observed, 'understanding... is largely lost' if data are quantified (Kaplan & Maxwell, 1994, in Myers, 2009:6). Like quantitative data, qualitative data are influenced by the researcher and are iterative in that analysis emerges and blends with data collection (Denscombe, 2010). The range of choice usually associated with qualitative research includes: case studies, ethnography, grounded theory, phenomenology and various mixed approaches. Each is implemented by research methods such as interviews and observation (Denscombe, 2010). Qualitative data may also be forthcoming using other methodologies, such as surveys, utilising open-ended questions to produce written words and transcripts from semi-structured interviews, which is the approach this study adopts (Denscombe, 2010). It was thought that giving greater weight to qualitative data was appropriate for a research plan in which generalisation will be uncertain, interpretation subject to agreement and participant understanding crucial. This contrasts with a wholly quantitative study, where generalisation is science based, factual and predictive.

Research methodology is a process of complete engagement for the researcher, in an attempt to capture the essence of an enquiry. Thinking reflexively about a research methodology is essential to understand the reasons why a researcher might be drawn to one set of data and not another. For example, this thesis selected a self-completed questionnaire method, rejecting documentary analysis after considering the best way to obtain the data and limit bias, the nature of analysis required, and the nature of the interpretation procedures likely to be needed. Of the approaches available, case study and experimentation seemed easily discounted, as negotiating access would prove problematic, while causation and observation are not the purpose of this thesis. Ethnography and action research invited closer scrutiny as both are 'context specific' (Cohen et al, 2008:84) however, since the former is more event driven and the latter interventionist the choice of approach for this thesis is defended by noting the descriptive and explanatory nature of the survey approach (Cohen et al, 2008:84).

Since epistemological and ontological assumptions are used to shape research approaches, and have been likened to a second skin (Marsh & Furlong, 2002), a

consideration for this study is that a positivist membrane coats some participants, who may view reality from a realist perspective. This thought is derived from an assumption that, since numerical data is the bedrock of financial advice, consumers and advisers are more likely to accept a quantitative approach to realism. Academics appear to agree with this proposition, noting that business often prefers numbers despite evidence that valuable qualitative data are available (Day & Barksdale, 2003). The assumption that some quantification would be expected influenced the approach this thesis adopted and led to the conclusion that a mix of research methods would be appropriate. Other researchers in the field of professional services endorse the value of combining quantitative and qualitative methods (Day & Barksdale, 2003). A particular attraction of the mixed method approach, to this study is that it provides an opportunity to present conclusions in language appropriate to different audiences while recognising that combining methods brings presentational difficulties. However, it is expected that aligning words and numbers rather than adopting a single method will be well received by readers with differing perspectives, practitioners who are well versed in numerical analysis and consumers who may not be, each of whom will find value in the complementary benefits that mixed methods offer (Brannen, 2005). Support for this approach comes from Denscombe (2010) who suggests that mixed methods are suitable for answering problems as they provide solutions that are pragmatic in nature. This thesis consequently took the view that providing practitioners evidence of (1), the importance of referrals as a method of new business capture, (2) whether asking is effective in terms of results, (3) the value of referrals as a percentage of income, when contrasted with other methods, and (4) the proportion of clients obtained by referrals should be expressed numerically and as such should be addressed in a quantitative manner, particularly as practitioners are more familiar with numerical analysis. By contrast the main role of the clients is more to express opinion and make observation over the antecedents of referrals which could be best captured by qualitative research.

It was thought that the intermingling of survey and interview data, gathered from both consumers and practitioners, could facilitate a more nuanced approach while highlighting any findings that might be contradictory or complementary (Brannen, 2005). Given that the aim of this thesis is to provide a broader analysis of the

behaviour of consumers and practitioners, in the context of referral generation, it was considered that a mainly qualitative approach, augmented by an element of quantification, would be appropriate for an exploratory study of this kind. Referral behaviour is mysterious and therefore the need to quantify the importance of referrals whilst exploring embedded beliefs and probing for evidence based on experiences of consumers, lends itself to mixed methods approach. One factor that was also pivotal in influencing the decision to include interview data was the paucity of prior empirical work after noting that qualitative research is well suited for exploratory studies when 'there is not much previously published research' (Myers, 2009:9).

It is readily observable that in practice practitioners operate in a numerical environment and that they utilise statistical evidence to support their client recommendations and are therefore likely to be drawn toward quantitative data. The fieldwork phase of this thesis included a quantitative dimension and was organised in three phases; an initial exploratory, qualitative approach, followed in turn by structured questionnaires and semi structured interviews, to generate both qualitative and quantitative data from which the findings could be drawn. The choice of semi-structured interviewing was based on non-tangible nature of financial advice and the consequent dependence on individual perception and opinions. It is observed that while questionnaires offer the advantage of ease of circulation and greater access to numbers of participants, they cannot unlike face-to-face interviews fully satisfy the requirements for an exploratory study.

In sum, the thesis is essentially within a qualitative paradigm, utilising a mixed method, which offers synergic value and the opportunity to open a number of seams into the multiple realities that this research seeks to explore.

## 5.6. Research Methods

It is recognised that methodology can be confused with a research method, however whereas a methodology guides the research and is a set of intellectual choices, and the research method provides the means of data collection (Guba & Lincoln, 1998). The research approach adopted for this thesis is to utilise data from: (1) buyers of independent financial advice services, the clients, who have or have not provided referrals; (2) practitioners; (3) DIY investors, who have chosen to manage their own affairs; and (4) clients of the author (personal clients). The results obtained will be applied in order to explore the importance of referrals for both practitioners and consumers, and to probe for understanding of the factors that determine advisor-client referrals.

The difficulties with collecting interview data have been mentioned earlier but it should be reiterated specifically that virtually all advisors were unwilling to allow their clients to be either surveyed or interviewed. This placed obstacles in the way of the original research plan and led the study in a different direction although ultimately 20 (unfettered) consumers of advice were identified who agreed to be interviewed. Despite the reluctance of advisors to allow access to their clients IFAs were found to be very willing participants themselves and consequently 20 IFAs contributed to the study. Lastly, 15 DIY investors and, as a later addition, six personal clients of the author, were also interviewed.

It was anticipated that data from these distinct and different groups would enhance claims over reliability. These consumers of advice were invited to explain how and why they chose a particular firm or advisor to explore if any factors involved in selection relate to those of referral propensity.

The research methods utilised were a self-completion questionnaire and semi-structured interview. The intention was to seek insightful comments in a tactically appropriate manner and meet the test of feasibility (Cohen et al, 2008). It is thought

that a survey methodology employing a self-completed questionnaire method can unite the study objectives by securing 'opinions, attitudes, views' (Denscombe, 2010:157). As a result, the research method included three different questionnaires which offered the potential to provide both quantitative and qualitative data, supplemented by semi-structured interviews to probe for greater understanding of the issues.

Although the study began with a clear aim and structure, the blueprint continually evolved as designs were tested, rejected and amended culminating in data being accessed by surveys and interviews which will be described in more detail in due course.

This thesis has elected to pursue a mixed method since it offers broader interpretative opportunities, than a single method and because it seemed particularly relevant for a study addressing audiences with differing objectives. Noting the weight of literature is devoted to inter-firm research, in which data are mainly being collected from practitioners or institutions, to differentiate this study will enlist the cooperation of individual respondents who are clients of a financial advisor, and unfettered consumers. The consumer group perform a dual role, in that many will have advisors but some will not, allowing for a different voices to be heard, including those who can explain why they elect to self-manage their financial affairs. The views of financial advisors are also sought in the interest of balanced reporting and in order both to quantify the importance of referrals to practitioners and to learn more of how they approach the task referral generation.

Following the decision to include interviews in the research design, it was during the scoping conversations with IFAs and consumers, a decision was reached to employ a semi-structured interview technique as a middle ground between structured and unstructured methods, after it was judged that this approach would best meet the study objectives whilst keeping participants focused on the issues (Wallace, 1998). It was anticipated that by using a semi-structured interview, as opposed to a more

broadly based approach, would maintain focus on the subject while providing an opportunity for the interviewees to expand upon their responses (Buston et al, 1998). Furthermore, as participants will inevitably be constrained by time, the semi-structured interview format allows guidance to be provided over the likely length of the interview, thus demonstrating empathy and understanding of interviewee's lives.

It was felt that richer data might emerge if questions were grouped in order that one area could be explored in depth before moving to another. The participants were in fact very generous with their time, despite often indicating that they only had 15 minutes, almost all interviews lasted at least an hour. IFAs were a particular challenge, as they often wished to assert their views on a range of industry issues, drawing the conversation into areas unconnected with the research. This practical lesson reinforced the need to carefully prepare an interview protocol in advance, to ensure the questions met the study aims and thereby manage the interviews whilst retaining flexibility in the event participants wished to expand on areas on interest.

This was essentially an exploratory research project, given the limited prior research into referral generation that could be found. It was felt that by utilising a mixed method to data collection would reduce the potential for criticism if a single method had been chosen, since data from each research method can be cross checked helping lend credence to the findings. It is reasoned that research based upon 126 primary data contributions, 65 by way of questionnaire and 61 semi-structured interviews would elicit both textual and numerical data which could be used to explore the research questions, which arguably, together with numerous secondary and media sources, can lay claim to a measure of validity. As this investigation follows an inductive approach, the participants are independent advisors, consumers of advice and other consumers, all selected on a non-random basis, as explained in the next section. It was expected that this approach will allow for a wide range of reliable participants, offering high validity. The challenges faced over participant selection and access are now described.



## 5.6. Selection of participants

Though the overall direction of the research will remained as planned throughout it should be made clear that the original research plan envisaged investigating new client capture and the role of referrals in the entire field of regulated advice. That was to be undertaken by surveying the clients of both distribution channels of regulated advice; restricted and independent, it having been resolved that validity would be enhanced by allowing both voices to be heard, in equal numbers. Despite enlisting the support of colleagues who had previously worked in restricted organisations, this approach had to be abandoned when no method of accessing clients of restricted advice could be conceived. Consideration was given to alternative methods of data collection to reach consumers of restricted advice, including canvassing outside a bank. It became clear, after a number of attempts, however, that this approach was no more likely to identify restricted clients.

Resolutely seeking divergent and informed views, attention then shifted to seeking the opinions of employees from restricted organisations. A number of restricted organisations were approached but they refused to participate, citing either contractual obligations or a corporate policy that prohibited them from participating in surveys. Separately, the colleagues who had previously worked in restricted organisations, were invited to contact their ex-colleagues, but a similar reluctance to participate was noted. The conclusion was drawn that consumers of restricted advice and their advisers could not be easily identified or accessed without recourse to a larger scale enquiry. Acknowledging these obstacles, combined with a determination to provide a balance of views, a fresh approach to data gathering was planned.

Reassessing plans for access and participant selection, it became clear that a more creative approach would be beneficial. To help inform this decision process, and to demonstrate reflexive thinking, a framework, shown in Table 5.1, was developed to consider the relative merits of potential participant groups. Although literature identifies validity, objectivity, reliability and generalizability as the four criteria that

good research design should address (Denscombe, 2010), it seemed appropriate to extend the elements to meet the aims of this particular study. Additional criteria thought to be germane were added to the framework: study aims, ethics, feasibility, bias, accessibility and knowledge. In turn, applying a personal interpretation based on knowledge of the issues, each of the research criterion was ranked to create a reflective template for decision making.

Table 5.1. Relative value of participant groups.

<b>Criteria</b>	<b>Clients of IFAs</b>	<b>FCA</b>	<b>Independent advisers</b>	<b>Restricted advisers</b>	<b>Professional Bodies</b>
<b>Validity</b>	5	4	2	2	4
<b>Reliability</b>	2	3	4	4	3
<b>Generalizability</b>	4	2	4	4	1
<b>Objectivity</b>	4	2	3	3	1
<b>Study Aims</b>	5	2	4	4	2
<b>Ethics</b>	3	4	3	3	3
<b>Feasibility</b>	3	1	3	3	1
<b>Lack of bias</b>	4	5	1	1	4
<b>Accessibility</b>	2	1	4	1	1
<b>Knowledge</b>	4	2	3	3	2
<b>Totals</b>	36	26	31	28	22

(Source: original. Criteria ranked 1-5 by less or more importance to study aims)

The table was conceived to judge the appropriateness of each criterion against the study aims which is evident when awarding the highest mark, for lack of bias, to the FCA in recognition that they have no recognisable commercial objectives. The analysis also highlighted the wide gap between the perceived contribution that advisor clients could offer and that of the other potential respondents. It should be noted that independent advisors were ranked highest for accessibility because the researcher has a wide range of contacts in this field. The FCA and professional bodies seemed to be avenues worth pursuing, since they both regularly publish discussion papers, on matters connected to advisor-client relationships. Recognising that consumer protection is an objective of both the regulator and professional bodies, it was assumed that documentary data might exist referencing such matters as client retention and consumer behaviour. Acknowledging that readers may consider the FCA and professional bodies to be a credible source of consumer information, it seemed appropriate, to explore if they would provide any data of relevance to this study. An ensuing email request for information connected to the research questions proved fruitless as both the FCA and two professional bodies were reluctant to be drawn on questions associated with advisor selection and referral generation, preferring to direct enquiries to published material accessible via their websites. On reflection, it was realised that since the FCA is a Government agency, already pivotal to this matter, any contribution could raise questions over influence and bias.

The documentary search was extended to consumer organisations but uncovering accessible data connecting consumers to IFAs proved unworkable. Although the data search extended to the Citizens Advice Bureau (CAB), and other consumer information websites, no data could be identified relating to the study issues. However, unlike the regulator and the professional bodies, it was found that the CAB (2011) website does state that independent advice is 'usually best'.

This approach and reflection helped crystallise deliberations over defining the data and led to an acceptance that gaining access is a 'prerequisite and precondition' (Burgess, 1984:45) which meant that identifying participants likely to participate was

more pressing at this stage. Stepping back from the problem, concern grew as it became apparent that no ideal solution would be possible. These concerns magnified as unresolved questions remained over whether understanding of the issues was required, how to identify suitable consumers of advice and whether access to clients of independent advisors would be as straightforward as envisaged.

This reflection led in turn to the recognition that regulated advice encompasses a very wide range of possible participants, and that the approach 'must be appropriate to the research questions' (Silverman, 2010:65). A pragmatic decision was reached to narrow the research focus by collecting data only from IFAs rather than from all regulated advisors. Finally, it was reasoned that data should preferably be collected from those who had knowledge and experience of referrals together and were willing to participate. This is an approach advocated by Cohen et al (2008:78), who observed that 'fitness for purpose' should govern research design which is also a position endorsed by Denscombe (2010) who notes that respondents require knowledge or experience to contribute if they are to contribute meaningfully.

The original plan was to obtain data from clients of financial advisors, rather than solely from advisors as previous studies have favoured, in the anticipation that they will offer a different perspective. However, during preliminary conversations with practitioners, it was soon emerged that they were understandably protective of their clients, all of them expressing concerns over providing access to their clients. That connects with the difficulty other researchers have experienced in getting advisors to provide access to clients.

More concerning was the unwillingness of many advisors to participate in the research. A sense was felt that they had some awareness of their lack of understanding of the issues, which perhaps led them to be cautious in their cooperation. It was found that persuasion was required to overcome what was perceived to be their main concern, of devoting time to a project from which they could not envisage any personal benefit.

Anticipating these concerns, to some degree, it seemed appropriate to begin conceptualising a more creative approach to obtain data. The reluctance of some advisors to allow access to their clients would be a serious hurdle to overcome. On reflection, it seemed reasonable to assume that clients would be less likely to respond in a forthright manner if they thought their own advisors would see the responses. This theory was tested with three clients of one advisor, who, with prior consent, were interviewed by telephone. All were very supportive of their advisor and could not envisage a circumstance in which they might terminate the relationship. Furthermore, when gently encouraged to provide examples of good practice, the three clients appeared to favour language more commonly associated with advisors. This led to the sense that their personal views were being masked to some extent, and raised the possibility that advisors might select clients they knew would be supportive rather than allow a random selection from their client base. An additional constraint related to the provisions of the Data Protection Act, because advisors would require informed consent from clients for the release of contact details to a third party. In reality, this meant that all surveys would have to be sent from and returned to the advisor, opening up the possibility that those responses unfavourable to the advisor might not be returned to the researcher. While not an insurmountable problem, the prospect of additional administration, and issues relating to client confidentiality added to the concerns of advisors increasing their reluctance to allow access to clients.

It was at this point in the process that the notion of directly contacting individuals likely to use an advisor began incubating, as it was envisaged this would allow the participants to respond more frankly knowing that their advisors would not see the responses. This approach would allow for a wide range of different occupational groups, genders and age profiles to be chosen without an advisor controlling the data selection process. A qualification question was positioned early in the questionnaire, to determine whether or not the respondents utilised independent advice. This approach was successfully piloted with four personal contacts. These individuals represent a purposive sample which this theses defines as unfettered respondents (Bryman, 2008). The strategy recognises this could also be described as snowball sampling, given the difficulty in locating appropriate data sources, but

leveraging respondents for further introductions intention (Crossman, 2013) was not the intention. These unfettered participants were selected by contacting individuals who, it was reasoned were likely to use an advisor. It soon became clear that this process was fallible when it unearthed a number of consumers without an advisor.

Reviewing my network of contacts, a number of suitable participants were identified. However, the question mark over validity remained as my own network may reflect my own views thus a more creative approach to data gathering was required. To enhance validity and reduce the prospect of personal influence, I decided to enlist the help of colleagues. I contacted five colleagues and explained my desire to access individuals who matched my definition of unfettered responders and knowledgeable consumers. Each colleague was invited to identify an individual, not connected to the firm, having agreed that they would seek consent from the person concerned before providing the contact information. This approach seemed appropriate, and led to the design of the pilot questionnaire. However, before the pilot study could commence I engaged in a number of conversations with personal clients, IFAs and friends from my network to help frame the research.

## 5.7 Data organisation

During organising the data it was apparent that opinion could be categorised in more than one way and it is accepted that other researchers have their 'own biographies' and may introduce different themes (Cohen et al, 2008:171). This acceptance became increasingly obvious when returning to re-read the data as it was apparent that marginal differences in the approach to categorisation could be justified by another researcher. The approach taken by this study was influenced by the work of Folkestad (2008), who has argued that reading followed by categorisation is a cycle that can be repeated time and time again. As reading and reviewing continued it became obvious that significant swathes of the text, where the content was deemed of limited value, could be disregarded. It was observed during numerous readings of

the interview data that the transcripts often masked the subtleties of communication and the emotions of the interviewees. It seemed that nuances, deeply embedded within the data, were only really discovered when listening to recordings of the interviews when the participants' humour, sarcasm, intonation, laughter and emphases were revealed.

To aid in the organisation of the data, the decision was taken to adapt the framework developed by the National Centre for Social Research, which is widely used as a template for qualitative analysis (Richie & Lewis, 2003). This approach was justified after observing that the data could be connected with the factors that emerged from the literature review and were suitable for thematic categorisation in a deductive sense. This provided a framework within which to add themes as they emerged from the data, and to add other themes from the literature to those for later analysis. However, as the analysis progressed, it became clear that choices had to be made about where to locate the data in the overall framework, as it was evident that data could be categorised in different ways without an obvious mandate to do so. To enhance the process of the organisation, it was decided to conduct a search for individual words using a word cloud, which would provide a visual sense of the data. That plan was discounted for a number of reasons but principally because it was found that it was very difficult to amalgamate large data sets and as this technique is associated with quantitative content analysis.

It was next recognised that themes could be broadly allocated within categories derived from the study aims using a best fit approach. With that in mind, each transcript was analysed in turn, selected quotations were positioned within loose boundaries connected with the study aims, using a Microsoft Word table consisting of three columns, one for practitioners and consumers, while a third, left hand column, was reserved for emerging themes that seemed worthy of further investigation or were simply out of the ordinary. This technique seemed to be consistent with the ideas of Ryan and Bernard (2000) who suggested that a sequential process should be undertaken to construct theory by linking themes with concepts.

## 5.8 Analysis procedures

The responses from each of the three questionnaires were recorded in a spreadsheet, allowing the data to be scrutinised and the number of responses to each question to be calculated. The use of a spreadsheet allowed the data to be examined holistically in order to examine each questionnaire for any trends or discrepancies across different questions. For example, it was noted that professional occupations tended to be less in favour of receiving a reward for a referral than those from those outside the professions. It was felt that the reporting of ordinal, frequency and percentage survey data should be presented visually, utilising tables, to show the 'data themselves' (Cohen et al, 2008:506). Tables are a worthwhile method to display data, as they are not only widely used but it was thought they would be the most appropriate vehicle to convey information to practitioners thus meeting the challenge of 'fitness for audience' (Cohen et al, 2008:507). Presenting the data in a tabular format also allows the reader to easily see the number of responses for each question. Textual explanations accompanied the quantitative data to highlight significant differences or results or individual results of interest, with judicious use of percentages to aid comprehension. Occasionally, data from the open-ended survey questions and the interview (s) were used to corroborate or augment the findings.

In contrast qualitative data analysis is invariably less clinical than the numerical representation required of survey data and therefore the analysis of interview data would require careful consideration, particularly after recognising that there is no standardised method to analyse qualitative data, as many approaches rely on the researcher's interpretation of the data. Noting that narrative analysis is associated with interpretivism (Cohen et al, 2008) it is argued that, for this study, using one version of narrative analysis, thematic analysis, is consistent in a best fit sense with the research method (Myers, 2009), subjective and 'anti-realist in nature', and is aligned with the theoretical framework (Bryman, 2008:500). Given that thematic analysis focuses on what is said or missing, similarities, differences while searching for repetition, metaphors and the language used to explain referrals, it was thought this could be best employed, by grouping together all responses to the same



question and organising the data into themes and subthemes (Ryan & Bernard, 2003). It was not possible to complete the analysis before the next interview was scheduled, but, to some extent, this was useful as it allowed time for reflection. As the data were handled, it was found useful to select passages, from the transcripts which it was thought would best summarise participants' perceptions, and align them within broadly similar groupings for later categorisation. This led to the development of a second analytical table where themes from the data, such as service quality, qualifications and referral influences were positioned in one column while two further columns used to distinguish between practitioner and consumer comments.

Eventually, it was recognised that the themes could indeed be broadly allocated within categories derived from the study aims, and a further four tables were constructed corresponding to the research questions. This process was aided by using colour-coding to highlight data corresponding to each study aim, which also helped to locate any quotation with each transcript. Each table consisted of three columns for the themes, advisor and verbatim quotes by consumers. Finally, a paper copy of each table was pinned to a large cork board. Bryman and Bell (2007) suggested that memos are particularly useful ways to identify common themes, therefore, during the analysis Post-it Notes were used to write down and connect themes with literature. These notes and memos were attached to the paper copies on the cork board, to provide a reminder of the key themes and to encourage reflection. This allowed the data to be visualised both individually and holistically and generated new findings that had not been previously identified: for example, the imprecise language used by consumers to describe advisor performance and the complex language that surrounds the provision of advice. This approach is consistent with the recommendations of Ryan and Bernard (2000) that a sequential process should be undertaken to construct theory by linking themes with concepts.

The methodology, procedures and selection of the participants in the study having been described and discussed, the next chapter moves on to the research plan.

## Chapter 6 - The research plan

As Chapter 5 explains, the research plan underwent many twists and turns. The process of deciding how to collect data followed a circuitous and troublesome path. A particular difficulty was found in obtaining the consent of advisors to survey their clients and in securing the agreement of those clients to be interviewed. This Chapter will now turn to the question of how these difficulties were overcome, explaining in greater detail the specific steps taken to fashion a workable research plan.

### 6.1 Sampling

The sampling procedure involved an in-depth consideration of the type and numbers of individual respondents, with experience of referrals and advisor-client relationships, in order that data can be obtained from knowledgeable participants. The outcome was a deliberate policy of targeting a small number of participants with intimate knowledge of the issues (Cresswell, 2006). To this end it was reasoned that 20 practitioners and 20 consumers (clients) of financial advice, with experience of referrals, would satisfy the requirements of a viable qualitative research sample. However, it was also felt that consumers, who do not utilise advice, should also contribute, as they may have different viewpoints based on their experience of referrals in different fields. The responses of 15 DIY consumers, who self-manage their financial affairs were also sought. As late addition to the research plan, data were also collected from six personal clients of the author. There is no absolute guidance on the number of interviews required (Baker & Edwards, 2012) therefore, the interviews ceased when it was found that no new answers were forthcoming and it was deemed that a measure of theoretical sufficiency had been achieved. Table 6.1 provides an indication of the wide range of occupational groups involved in the sample.

Table 6.1. Profile of the consumer sample

<b>Occupation</b>	<b>Clients of financial advisors</b>	<b>DIY consumers (self-managers)</b>
<b>Golf Professional</b>	✓	✓
<b>Accountant</b>	2	2
<b>Solicitor</b>	2	2
<b>Luxury hotel manager</b>	✓	
<b>Restaurant owner</b>	✓	
<b>Hair salon owner</b>	✓	
<b>Charity executive</b>	✓	
<b>Landscape gardener</b>		✓
<b>Physiotherapist</b>	✓	
<b>Civil servant</b>	✓	
<b>Teacher</b>	✓	✓
<b>Artist</b>	✓	
<b>Photographer</b>	✓	

The importance of professional introductions to advisors, together with their knowledge of referrals, led to the decision to seek the opinions of accountants and solicitors. It was also thought their input, it was reasoned, would add to the credibility of the findings in the eyes of practitioners.

It is clear that quantitative research requires sampling of individuals that are representative of the field being researched in order to encourage claims for generalisation of the results (Creswell, 2007). It is expected that the sample size, described above, will adequately reflect the practitioner and client population. The sample composition was determined by purposive sampling, with care taken to ensure that participants had knowledge of the issues. It was reasoned that the addition of closed and numerical questions, to the open-ended questions would produce data reflecting individual attitudes and provide factual evidence.

## 6.2 The participants

The survey was sent by email to 26 independent financial advisors (IFAs) who had agreed to participate. Their agreement was secured during earlier telephone conversations in which they were invited to confirm that they would be willing to participate in an interview after completing the survey. This method was successful as 14 respondents returned the survey. However, persuading the IFAs to agree to be interviewed was less successful, since only seven of the 14 respondents agreed to be interviewed.

This comparative lack of cooperation eventually led the research in another direction, and to seek help from those who it was thought might be able to provide the necessary access to influential respondents. It was reasoned that a professional association might provide such access and following a conversation with the Director General of the Association of Professional Financial Advisors (APFA), it was agreed that they would offer assistance. To support the validity of the sample, it was decided that the APFA would select advisors, from their national database. This sampling frame covered the whole of Great Britain, six participants came from England and Scotland and one from Wales, thus reducing the potential for a bias towards London and the Home counties, which could have resulted had the data been sourced exclusively from colleagues who are based near the capital.

The APFA participants were invited to take part in a follow-up interview and 13 respondents agreed to be interviewed. The geographical dispersal of the respondents made it impractical to conduct all the interviews face-to-face, hence six interviews were conducted by telephone. Thus, in total 20 advisors were interviewed.

Because one of my long standing clients had recently completed his own PhD we entered into a discussion about referrals and the retelling of the circumstances that led to him to be referred to my firm and his subsequent referral of his friends. Consequently, despite my earlier concerns over validity I began to speculate whether my personal clients might have a role to play. I reasoned that as my relationship with many clients had begun more than 20 years ago, and most of them had provided referrals, they might be willing to share the story behind the referrals they had made. This led me to select three clients who had previously referred me to another three clients, thus enabling me to talk with the referral providers and the individuals they introduced. An added benefit of this approach was that I could compare the recall of the referrer with that of the then prospective client, adding strength to claims over validity. This proved to be a fruitful approach as, given my knowledge of both clients, I was able to discuss the origins of our relationship in complete candour. Despite my earlier misgivings, about personal clients, the recognition that these data would not be neutral and accepting that my clients may not be as frank as they might, I submit the outcome meets the test of pragmatism and could make a constructive contribution to the overall findings whilst enhancing their validity. It seems that this approach appears acceptable to by Cohen et al (2007:78), who note that 'fitness for purpose' should govern research design, and is supported by Denscombe (2010), who observes that respondents require knowledge or experience if their contribution is to be meaningful.

### 6.3 The research phases

The research plan was conducted in three phases: scoping conversations, pilot questionnaires followed by a combination of a structured questionnaires and semi-structured interviews involving consumers of advice and independent advisors. The process is summarised below in Table 6.2.

Table 6.2. Number and roles of the participants

#### Phase 1- Exploratory interviews with the stakeholder groups

<b>Who?</b>	<b>Number</b>	<b>Purpose</b>
Advisors	4	To establish importance of referrals, interpretation, experiences in this field
Consumers of advice	4	To share experience in sourcing an advisor. Have they referred and if so under what circumstances?
Personal clients	4	To establish why they referred. What did the requester ask, what did the client say and what would make the client terminate the relationship?
DIY consumers	4	To establish why they elected to self-manage and what methods they use for investment. What is their understanding of advice?

## Phase II - Pilot Questionnaires

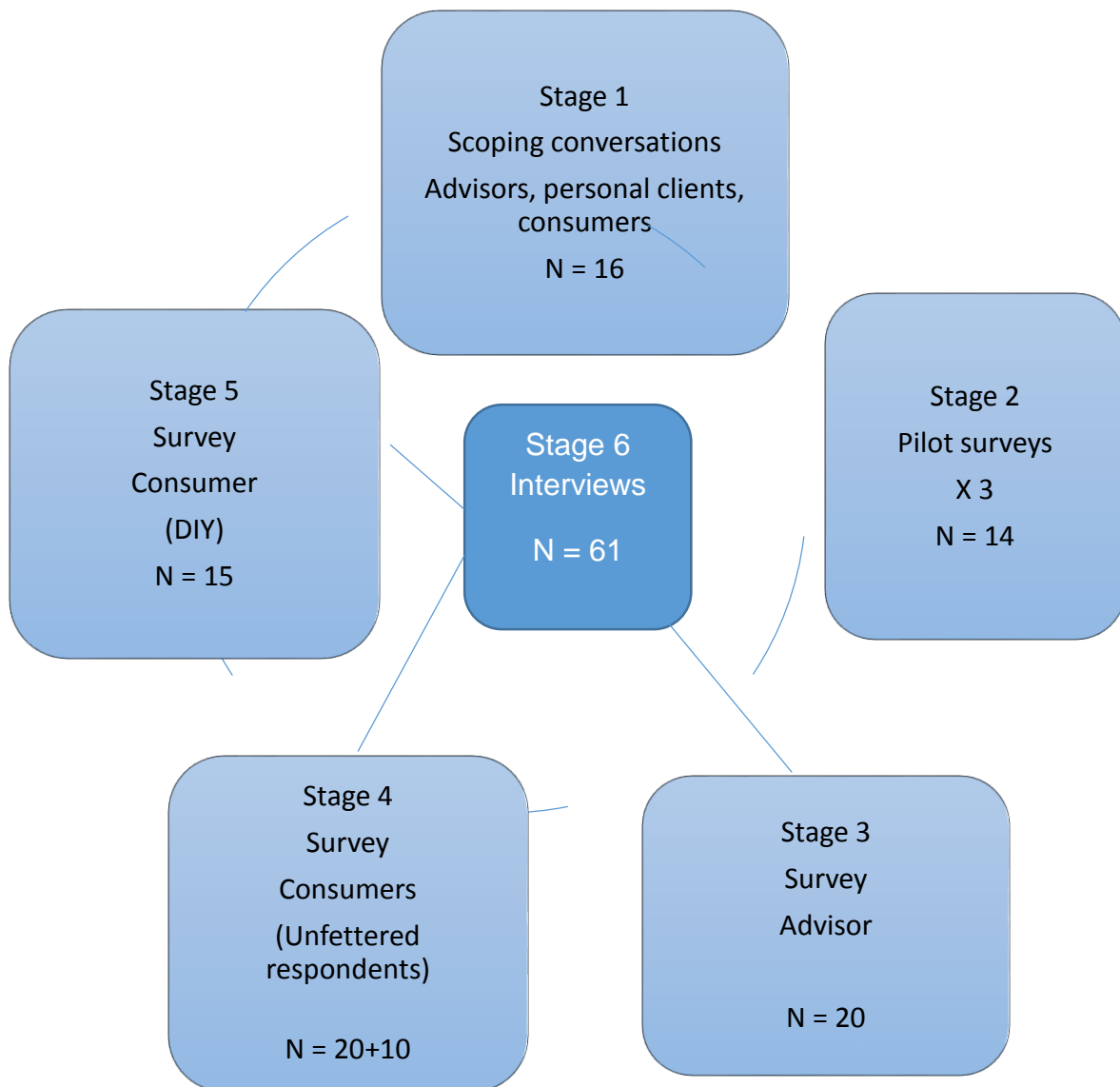
<b>Who?</b>	<b>Number</b>	<b>Purpose</b>
Advisors	4	To test layout, questions, ease of completion, responsiveness, willingness to cooperate.
Consumers of advice	4	To test layout, understanding of questions, ease of completion, time to complete.
Personal Clients	4	To explain the circumstances leading to a referral. Did the advisor influence the referral? Who made contact with the advisor? What were the timing and language used?
Academic colleagues	2	Test layout, ease of completion, wording, structure, mix of open and closed questions

## Phase III - Semi-Structured Interviews and questionnaires

<b>Who?</b>	<b>Number</b>	<b>Purpose</b>
IFAs	20	To obtain quantitative and qualitative data.
'Unfettered respondents' Who are clients of advisors	20	To obtain quantitative and qualitative data.
Unfettered respondents	10	To obtain quantitative data.
Personal clients	6	To obtain qualitative data.
DIY consumers	15	To obtain quantitative and qualitative data and explore the reasons for not utilising advice.

The fieldwork itself was pursued using a six-stage research plan which is represented diagrammatically in Figure 6.1.

Figure 6.1. Sequence of the research plan



Notes:

N = Number of respondents or participants at each stage. Total surveyed = 20 IFAs + 20 Clients + 15 DIY consumers + 10 unfettered respondents = 65. Total interviewed = 20 IFAs + 20 Clients + 15 DIY consumers + 6 personal clients = 61.



#### 6.4. Scoping conversations

The purpose of the scoping conversations was to explore to optimum design of the research questionnaire and decide upon the wording of the questions it would contain. The objective was to underpin the research boundaries by probing for understanding of the issues, gauging the level of interest and to confirm the appropriateness of the language to be used. This approach was useful as it allowed for discussions into the willingness of advisors to contribute to the research and to be interviewed. It quickly became apparent that many would require to be persuaded, since the sense was that they would be more willing participants if they perceived a professional benefit to be derived from doing so. It was relatively straightforward to obtain agreement to complete a questionnaire, but advisors were less prepared to be interviewed. They cited concerns over the time needed to participate and in particular raised questions over how the data would be used. That was understandable, since a number of firms expressed concerns that their client philosophy, which they view as intellectual property, was not something they wish to be shared without consent.

Separately, the views of professional bodies and investment company employees were also sought, on the grounds that they regularly publish and comment on issues related to advisor-client relationships. It was noted that the professional bodies, in particular, elect to promote understanding of complex issues, like referrals, by making use of marketing consultants, normally not practitioners, to disseminate knowledge in this field. When speaking with practitioners, it was noted that it was the sole trading advisors tended to agree to participate readily, whereas employees and managers within larger firms were more hesitant. One possible explanation may be that the former enjoy greater autonomy and do not have regular contact with other advisors, whereas advisors in latter group may have to seek consent from supervisors to participate.

During these preliminary conversations, it became apparent that practitioners had differing interpretation of referrals. Something all the advisors seemed to agree with was that they believed their client-handling skills influenced existing clients to introduce them to prospective clients. However, when they were asked to recount an occasion that resulted in a referral, it became clear that they were often describing a situation when a name had been offered and it was not always obvious whether the name had subsequently become a client. The sense was that they did not keep records of referrals and that they were hesitant when considering their response. At other times, advisors described how a prospect had telephoned them after talking with a client, but they could not explain nor did they ask why the referral occurred. When they were asked about referrals numbers it became clear that advisors did not always maintain a database of referral numbers and instead relied on estimation. This was a surprise, as the assumption had been that such information would be of value in formulating future marketing strategies and would provide useful management information concerning the sources of new client capture. It was also clear that not all advisors asked for the source of the recommendation or considered the significance of asking a prospective client what had encouraged them to arrange a meeting. This finding reinforced the desirability of including interviews in the research plan, since if advisors are not recording information about the numbers of referrals, it is unlikely they will have data on the origins of referrals. These findings also influenced the pilot surveys and undoubtedly led to a more informed suite of questions.

I found that the scoping conversations with advisors helped to construct my research questions. However I soon noticed a pattern emerged in which the observations became increasingly predictable. I was particularly struck by the level of assumption that underpinned advisors' responses and by the way they often answered a different question from the one being asked. One possible explanation for this behaviour is that advisors are used to asking questions and being a source of information rather than being questioned. I speculate that this also fits with a desire to control the discourse in order to provide answers that are well rehearsed in industry communications, especially to a fellow practitioner.

Scoping discussions began in a very informal manner with friends and acquaintances rather than clients. During these brief conversations consumers were invited to explain how they had selected a professional service and whether they had made or received a recommendation over the past year. Consumers, who it was thought might utilise advice, were asked how they would respond to a request for a recommendation by a financial advisor. The conversations deepened to include the retelling of circumstances when a recommendation had been either received or provided. In-depth discussions followed concerning the type of questions they had asked, how contact had been made and whether they were aware if any referral, they had provided was subsequently acted upon. More time was spent with those who had experienced referrals, both as receiver and provider. These preliminary conversations, involved a wide range of occupations (including retirees), genders and ages, in order to provide opportunities for discursive commentary. The broad-ranging discussions highlighted the essential role of language and the effect of the order in which questions are asked.

## 6.5 Pilot surveys

Following the exploratory, scoping, discussions with advisors, a pilot questionnaire was sent to four IFAs, known to the author, who agreed to participate and discuss their responses during a follow-up telephone conversation. A second pilot questionnaire was also sent to four individuals thought to utilise financial advice, four personal clients and two academic colleagues who kindly agreed to offer feedback on its design, structure and content. When it became clear from the aggregate responses that a number of the respondents did not use an advisor, a third pilot survey was directed at four more personal contacts and two friends who were DIY investors. To distinguish self-managing consumers from clients of advisors this data set are referred to as do-it-yourself (DIY) consumers to probe for their reasons for self-investing. It was reasoned that the answers would be useful when contextualising advisor-client relationships. It was assumed that some members of this group might have terminated a relationship with an advisor before electing to

self-manage and consequently could provide valuable insights into advisor-client relationships and provide a contrast with data from advisors and clients.

The feedback respondents offered was used to help craft the final questionnaire. The pilots were repeatedly revised when feedback indicated confusion over certain of the questions. Particular care was taken to simplify the language and ensure the questions met the aims of the study. For example, the importance of referrals to IFAs was addressed with a question inviting respondents to indicate the proportion of new clients that had been generated as a result of a referral and if any other client capture-methods had been successful. Questions were repeatedly tested and amended in order to craft wording that best met the research aims. The pilot survey results demonstrated that response rates were improved when the survey was embedded in the body of an e-mail rather than simply attached to a message.

Preparing the survey was a demanding process, particularly since evidently some questions could not be articulated within the quantitative framework of a survey. These concerns raised doubts as the validity of the survey for this study, but it was felt that quantification would be of value as the data could provide a useful counterpoint when analysing the advisor-survey responses. With hindsight, this approach proved valuable in providing both confirmatory and contrasting evidence that helped contextualise the findings. Additionally, the consumer survey added weight to the discussion of advisor-client congruency which follows in Chapter 8. It was a surprise when half of the consumers, who had been selected on the assumption they fitted the criterion of utilising financial advice, indicated that they did not in fact use a financial advisor.

## 6.6. Questionnaire design

Three separate questionnaires were required to collect data from practitioners, IFA clients and DIY consumers.

### 6.6.1. Advisor questionnaire

The design of the advisor questionnaire was piloted with four IFAs and subsequently amended to include two open-ended questions, to probe for the richer data that such formats generate, when two respondents expressed frustration at not being able to express themselves fully. The survey instrument was designed to be short to encourage participants and eventually, the final advisor questionnaire, formed of 10 questions comprising two open-ended, four numerical and two answered using Likert scales, plus two starting questions asking about gender and trading style. Greater weight was given to the numerical questions in order that the importance of referrals could be quantified. The two Likert-scaled questions addressed the validity of asking as a tool for managing referral generation while the two textual questions allowed for opinions to be expressed that would help in the conceptualisation of referrals. The two Likert style and four numerical questions were to yield quantitative data while the two open questions were directed at attracting qualitative data. The Likert scale was employed to both measure the intensity of feeling and also, as the pilot confirmed that ease of use and simplicity were key influences in stimulating responses (Bryman, 2008). Furthermore, utilising a Likert scale enhances the comparability of the answers, allows for pre-coding or post-coding, even though coding is more commonly associated with quantitative analysis. In this research a five-point Likert style scale was used, anchored strongly agree and strongly disagree with a neutral mid-point, to provide data in order that a numerical analysis can be undertaken.

Care was taken to ensure the questions were crafted in such a way that would contribute to understanding of the importance of referrals, relative to other methods

of client capture, and importantly whether asking for referrals worked, or not. The questionnaire had been revised on four occasions to reflect the observations of advisors in the scoping conversations before the final version was completed. It was noted that the telephone conversations with advisors were particularly valuable and had undoubtedly influenced the final design. The questionnaire concluded with a question inviting the respondents to take part in a follow-up interview.

A conscious decision was taken to incorporate advisors from differing occupational settings. Accordingly the eventual respondents were employees, employers, sole traders, small (less than three regulated advisors) firms and those operating within larger companies participated. This approach was considered important as it was thought likely that different voices would yield a variety of views and opinions. In particular, it was thought that advisors who had to source their own clients would view referrals differently from those who had clients provided by the firm they work for. It was observed during testing of the design that when open questions were placed early in the survey, this produced fewer completions. It gradually became clear that the response rate would be increased if the numerical and Likert-scaled questions were positioned early in the survey. Consequently, the format of the survey was amended so that two open questions came later in the survey. The pilot confirmed that advisors were less likely to respond in any meaningful way to open-ended questions. To encourage the return rate, 80% of the survey questions were non-textual offering multiple choices.

The advisor questionnaires were crafted to address the specific aims of the study: (1) to define and conceptualise referrals in the context of the financial advice; (2) develop a conceptual framework of the referral process; (3) to provide practitioners with empirical evidence in connection with their beliefs about the importance of referrals; (4) to explore whether (as many practitioners believe) it is possible to actively manage referral generation within a financial advice practice and (5) to investigate the importance of referrals as a means of generating new business for advisors. In particular the survey questions addressed the assumption that referrals can be managed for by asking and sought to clarify the importance of referrals as a

means of securing new business. Other assumptions in circulation about referrals suppose that advisors have been 'taught to ask for referrals' (Prudential, 2013). However, sales training, or methods of managing for new clients, is not included in the curriculum of any of the professional bodies, so it is difficult to reconcile where and how such teaching takes place.

#### 6.6.2. Consumer questionnaires

The consumer survey was distributed by e-mail to 55 individuals 'unfettered respondents', sourced via colleagues and personal contacts, who were expected to utilise a financial advisor. A high return rate was anticipated, as potential respondents had given their agreement to participate in the survey. However, prompting was still necessary before 20 useable surveys were returned. Although another 15 surveys were also received it was found that the respondents did not have an advisor and it was initially thought that their responses could not contribute meaningfully to the thesis. The remaining 20 did not respond, and the initial conclusion was that they may not have an advisor was confirmed by the answers to follow up e-mails politely enquiring about the reasons behind the lack of response. Since it had already been decided to give greater weight to consumer responses, it was felt that the consumer contribution should be at least 50% higher than the advisor data. It was felt that to reach the target of 30 consumers of advice, alternative methods of collecting data from consumers might be necessary. This dilemma was resolved by a stroke of good fortune when the researcher was invited by the Chartered Investment & Securities Institute (CISI) to conduct a careers presentation and the deputy head expressed an interest in my research and agreed to circulate the questionnaire among staff members. The result was an additional 10 useable surveys returned but without the prospect of a follow-up interview as the respondents were anonymous. It was recognised that the participants forming the convenience sample, obtained from a school, were likely to be restricted to teachers and that this occupational group may have a similar outlook. However, since the deputy head had previously explained how staff members had openly discussed the qualities of their financial advisors, during informal meetings, it seemed that this

sample could be relied upon to provide a considered view, one that could draw from those with experience of financial advice, from an occupational group it was thought likely would treat a research project with understanding. This sample was solely designed to provide quantitative, survey, data associated with the importance of referrals. Consequently the data provided, by this sample, represents a relatively modest contribution to the overall research design, since it sits within a predominately qualitative research paradigm.

The questionnaire included 13 questions comprising of five Likert style and eight offering multiple choice. The consumer survey was deliberately longer than the advisor survey, as greater weight is given to consumer responses; however no open-ended questions were included, since it was found, during the pilot, that consumers had not considered the issues to the same degree as advisors. Therefore, providing a choice of possible answers was, as one member of the pilot study observed, less intimidating. The questionnaire sought to establish how consumers selected an IFA, what they valued from an advisor and how they would react to being asked to provide an introduction. Consumers were also asked whether a reward would encourage recommendations, if they have been asked to provide a referral and finally what factors are important when selecting and using an IFA. Each questionnaire concluded by inviting respondents to take part in a follow-up interview.

It was clear from the responses that a number of the respondents did not use the services of an IFA. It was reasoned that it would be useful to understand the rationale for not using an IFA may be useful when contextualising advisor-client relationships. It was assumed that some members of this group may have terminated a relationship, with an advisor, before electing to self-manage and consequently they may have some valuable insights into advisor-client relationships to offer, as well as providing a useful contrast with data from the clients of advisors.



## 6.7 Survey administration

Various approaches to formatting the survey were tested, including the use of Survey Monkey, however, piloting confirmed that a horizontal questionnaire layout was appropriate, easy to complete, and that e-mail was a suitable means of delivery. Consideration was given how best to distribute the questionnaires recognising that supervised, postal or internet choices was available. Following feedback, during the pilot and from discussions with personal clients, it was concluded that embedding the survey within an e-mail, rather than by adding attachment to a message, was the preferred method of delivery. Concerns over safeguarding the identities of the respondents were addressed in the body of the e-mail.

## 6.8 Interviews

It became clear that the nature of the exploration would benefit from discourse and that the addition of interviews would yield richer data. This proved to be the case. When reviewing the comments from the pilot surveys and taking into account the problems that can occur when relying on surveys, it was noted that 'misremembering' could become an important issue given that participants would be asked to recall previous events (Bryman, 2008:255). To counter this concern, wherever practical, participants were asked during interviews to clarify statements made in the survey, although it was noted that many advisors had chosen to provide a limited textual response when responding to the two open-ended questions.

The interviews began with a brief explanation of the aims of the study after which, in order to create a harmonious atmosphere, depending on the circumstances, participants were invited to discuss their career aspirations, personal goals and any significant events being planned in the near future. This approach was fruitful as it often identified common ground between interviewee and interviewer. Following the experiences gained during the pilot interviews it was felt that the interview questions

should be separated into three broad headings: firstly those dealing with recommendations both offered and received, with particular attention being given to the circumstances behind each referral, secondly, the dynamics behind how consumers evaluate and select an advisor, and thirdly, to invite discussion over the relevance of interpersonal and cognitive relationship factors, assumptions and perceptions of the role of advisors. Finally, it was recognised that the complexity of the issues to be discussed meant that the perception of consumers who had knowledge of referrals and of client-advisor relationships, would be essential to this study.

It was found that having an explicit framework for these interviews provided a hub that could be returned to when the discourse became peripheral although participants were by no means discouraged from developing tangential thoughts associated with referrals. It was found that insightful comment often occurred near the end of the interview, when participants were asked if they found the questions fair and clear, whether they had expected questions that did not arise, and if they had any suggestions to change the format or improve the question process. All interview schedules were developed to include closed questions requiring a simple yes or no answer, filter questions to corroborate understanding and link themes and open questions, designed to probe for the actual events that led to a referral.

Most participants were interviewed either at their place of work or residence although six of the advisors were interviewed by telephone because of their geographical location. All consumer interviews were audio-recorded and in most cases transcription occurred on the same day, although as will be seen in section 6.8.1 not all of the advisors agreed to be audio recorded. As each subsequent interview was completed it was compared to the previous interviews to search for any common themes. Participants were asked to articulate their reasons for referring, or not doing so, and to outline the circumstances and reasons why they had provided or requested a referral, until it was judged that the responses were becoming predictable. This approach proved helpful, although in the early part of each interview the sense was that participants appeared to be providing responses that

could be considered relatively superficial and it was felt necessary to probe for more detail as the interviews progressed.

Three different groups of participants, advisors, clients of advisors and DIY consumers, were chosen in order to provide distinct perspectives on a range of related issues connected to the generation of referrals. This strategy required the creation of three different interview protocols, each designed to probe for experiences and knowledge relevant to the particular group of participants and the aims of the research.

Consideration was given to interviewing all of the advisors before beginning to interview the consumers, and analysing and interpreting the advisor results first, in order to understand the issues in greater depth. However, it was reasoned that this tactic could influence the subsequent data collection, since inevitably the results of advisor analysis would impact the consumer interviews in some way and potentially limit the discourse. Consequently, a pragmatic decision was reached to conduct interviews as and when participants became available.

#### 6.8.1 Advisor interviews

Interviews were conducted with the 20 practitioners who had completed and returned the questionnaires and agreed to be interviewed. It was felt that richer data might emerge if the interview questions were grouped in order that one area could be explored in depth before moving to another. Using a pre-prepared interview protocol, populated with research themes and questions was helpful, however, even with such a protocol it was challenging to maintain the interview focus as advisors occasionally took the opportunity to share ideas and seek feedback from an experienced practitioner. Opportunities to indulge in discussions concerning attracting new clients are rare and it was found that practitioners were willing to talk openly on a very wide range of associated issues. The consequence was that maintaining focus on the

study aims was a particular challenge as practitioners often wished to assert their views on a range of industry issues which drew the conversation into areas unconnected with the research. That reinforced the need to develop an interview protocol, before the interviews, capable of ensuring the questions met the aims of the study, as far as possible, in order to manage the interviews whilst retaining the flexibility to accommodate participants wishing to expand on areas of interest to them.

It was felt that a semi-structured approach provided a level of control and flexibility that would be absent in structured and unstructured designs. It was found that the discourse ran more freely when interviews started by asking participants to describe their career experiences and in the case of the advisors, to describe the background that led to their involvement in financial advice. This approach was influenced by the work of Money (2000:320) who described his questions as 'starting points' leading to qualitative data likely to complement quantitative analysis. One drawback, however, was that it occasionally became difficult to return to the interview protocol as participants seemed determined to exchange their experiences with a fellow practitioner. The experience assimilated from the scoping conversations emphasised the value of developing a store of 'prompts' capable of lubricating the discourse and provide both context and linkage between the interview questions (Prescott, 2011:18).

The issue of anonymity had also to be addressed, given that a five of the advisors were disinclined to be interviewed and were especially concerned about the use of recording equipment. To overcome these concerns it was decided to show the advisors the coding template that was to be used to anonymise the information they provided. This seemed to address the concerns and interviews were granted without the use of electronic recording equipment. This meant that contemporaneous note taking took place during and after each interview. In addition to support recall, immediately after each interview a pocket-memo audio-recorder was used to log noteworthy quotes, capture the key comments and record a sense of the meeting and to add personal commentary relating to the circumstances and content of the interview.

Even in the absence of an audio recording device, some advisors insisted what could be included and what was not to be on record. Most of the issues some advisors wanted disregarded related to their irritation with the regulatory process, in particular opinions of the Retail Distribution Review. The sense was that they feared that derogatory comments might be held against them should the disclosures be connected to them. The feeling that opinions were being constrained featured throughout the advisor interviews and the sense was that forthright discussion was often hampered by regulatory and commercial considerations.

### 6.8.2. Consumer interviews

Consumers were, in the main, entirely happy to be electronically recorded and as a result both contemporaneous note taking and a pocket-memo audio-recording device was used to capture the discourse. Interviews were conducted with 20 consumers of advice and 15 DIY investors who had responded to the survey questionnaire and agreed to be interviewed. Having restricted consumers to closed questions within the survey method the interview process provided the means to enrich the quantitative analysis. In contrast with the advisor interviews the consumer discussions began by an in depth explanation of the purpose of the research on the grounds that it was felt that empowering the participants would yield improved results. It was also felt that asking consumers for permission to seek clarification of their answers at a later date would be useful in two ways. First, it might help to allay the prospect of ill-considered remarks; second, it would allow for any misunderstanding (on the interviewer's part) to be discussed in the event that comments are made that appear to be out of keeping with other participants. In the same manner as in the advisor interviews, attention was given to matters of anonymity and assurances provided with an explanation of how coding would be used to disguise identities.

For the DIY investors, it was thought that the focus should be weighted toward the reasons behind self-investment, what sources they use to make decisions, how they decide on custody arrangements and, most importantly why they elect to self-invest rather than make use of the services of an IFA. It seemed appropriate to contrast the views of DIY consumers with those of clients, so discussion was encouraged to establish how DIY investors perceived financial advisors and to unearth the factors that discourage engagement with an IFA. By the end of the interview process, it became apparent that the chosen interpretive approach to this enquiry was placing a reliance on individuals to espouse meaning in disparate ways. Within this framework, it became very clear that individual participants did not necessarily have answers but were nevertheless part of the interpretive process. In many ways, each interview provided a new layer of understanding, adding to previous knowledge, facilitating the crafting of a conceptual framework. The opportunity to draw from survey data added to the sense of layering and the recognition that ultimately the conceptual model will be based on a researcher's interpretation of the data. This approach is consistent with the view of Gough (2003:31) that participants are part of a building process that ends with the 'intelligent interpretations' of the researcher.

During the interviews, I realised that I was attempting to tease out responses to issues that had not previously been considered by the participants, which required the participants to draw from past experiences. This made me ponder what my own approach would have been to answering the questions. I asked a friend to play the role of an interviewer and found my answers were drawing from pivotal moments in my own career. In turn, this led me to experiment with questions centred on key moments in the lives of advisors, such as the background and source of their first and/or most valuable client, largest investor, embarrassing incidents and proudest achievements anticipating that this approach might trigger the retelling of encounters with clients. During the following interviews it was then observed that providing cues was helpful in stimulating memories of events that had been seemingly consigned to history. This approach yielded more considered responses and appeared to encourage more openness. As a result of further reading, I now appreciate that researchers might associate this approach as an example of

the 'critical incident technique' (Edvardsson & Roos, 2001:251). It was not the original intention to utilise an incident-based research method but, since the aim was to tease out meaning by recalling critical incidents, it does appear particularly well suited for a study with exploratory ambitions.

## 6.9. Reporting of the data

The purpose of this study was to contribute to knowledge in the field of referrals, in the context of independent financial advice. The accent is on the importance, origins and the potential for the management of referrals as a means of new client capture. The literature indicates that researchers have paid little attention to this area and that, when they have, it has tended to be from a product provider or institutional viewpoint. This has led to misunderstandings and the growth of embedded assumptions. To redress that imbalance, this thesis, has been undertaken from the perspective of a senior practitioner, utilising data collected from advisors and consumers of advice, and will seek to explore whether current understanding within the domain is reflected in the data. A combination of survey and interview was utilised to explore the field in depth, with the aim of providing a contribution to academia and practice.

Consideration was given to how best to analyse and report the data. Solutions included presenting the data within one chapter and analysis in another. A further consideration was to separate the data quantitatively and qualitatively, conduct analysis separately for each category, and finally synthesising the results. Another option was to report the client and advisor data in separate chapters, analysing the two data sets separately, and blend them into a final report. Attention was also given to the sequencing of data collection, to determine whether qualitative or quantitative data should be prioritised and whether one approach should be allowed to dominate the other. This led to an evaluation of the merits of one method preceding another and finally to the conclusion that no single method should take precedence, particularly since data collection had to be dependent in practice on the timing of

access to the participants. Following this deliberation, it was felt that, of the three approaches to mixed methods identified by Hammersley (1996 in Bryman, 2008:607), 'triangulation' would be inappropriate, since using one strand of data to corroborate the other was not the aim, and that the 'complementary' approach would be too prescriptive, since singling out aspects of the research was not the intention. However it was clear that of Hammersley's three methods, his conceptualisation of employing, or facilitating, one research method to help the other, made sense for mixed method research strategy. The perception was that a cycle of reinforcement was enhancing each subsequent phase of the research, which was undoubtedly of value during the formation of the research plan. It was ultimately felt, however, that each research method should be its own master, which would allow the findings from survey data to be corroborated by interview data, until they are finally they are brought together during analysis, when choosing how to relate one strand of data to another.

Whilst the data analyses would be integrated, consideration was given to the most appropriate method of reporting mixed data. An obvious difficulty would be constructing a report for three distinct surveys, three different interviews, and a limited amount of secondary data stemming from documentary sources. The merits of viewing data from a contradictory and complementary perspective were considered, using one data set to understand the other and whether precedence should be given to one method over another (Bryman, 2008), however, following the guidance from Brannen (2005), it was recognised that employing one, lone, dimension would be unsuitable when three different participant groups are involved.

It was reasoned that the key consideration should be how to link the data without distorting the findings from each paradigm. This led to envisaging how the study would be received if the results were to be published independently, and then to exploring other methods of combining the data. There is no agreed model for writing-up the findings of mixed methods (Bryman, 2008). Academics appear to be divided on the issue, including one academic arguing that four or more methods need to be considered (Brannen, 2005). However they do seem agreed that it would be prudent



to incorporate the approach to writing-up advocated by the editors of the *Journal of Mixed Methods* (Cresswell & Tashakkori, 2007). Accordingly, following prolonged reflection, it was felt that the aims of the study would benefit most if the data from advisors and consumers were compared and contrasted under the spotlight of each of the separate research aims. Consequently, other approaches were discounted in favour of reporting and analysing the data under headings broadly derived from the study aims and interweaving themes emerging from the data on a best-fit basis. This approach appears to be supported by Creswell and Tashakkori (2007:108), who recommended that the ‘two strands are integrated’ rather than treated separately. The final decision, regarding reporting the findings, heeds the warning of Hammersley (2005) who argued that it is essential to avoid a quantitative approach dominating reflexivity. Therefore, this thesis first reports the survey findings in tabular form, aligning them to the relevant study aims, and then performs an integrated thematic analysis of the data when the themes that have emerged from the data are explored in more detail. Lastly, the two sets of data are synthesised and conclusions drawn. Table 6.3 shows the codes which have been used to disguise the identities of all the participants. Where names are used in the research confidentiality is assured by replacing real names with pseudonyms and removing any identifying information. Accordingly the research process seeks to remove the possibility of any accidental disclosure of participants identify.

Table 6.3 Participant coding

<b>Data collection method</b>	<b>Advisor Code (Example)</b>	<b>Client Code (Example)</b>	<b>DIY Code (Example)</b>
Survey	(A2)	(C2)	(D2)
Interview	(A2i)	(C2i)	(D2i)

Data from all three questionnaires will be presented in Chapter 7 under headings derived from two of the five study aims. Chapter 8 presents a thematic analysis of the qualitative data, within which the findings of the survey data will be incorporated.

## Chapter 7 - Survey findings

As previewed at the end of the description of the research plan in Chapter 6, this chapter presents the data collected during the quantitative survey-based phase of the research programme. The questionnaire results are organised into sections which refer specifically to two of the research aims: the importance of referrals and the management of referrals. The presentation commences by providing a tabular report of the findings which is followed by a brief summary of the findings. Where appropriate, contextual first person commentary is added, to frame the data by relating a particular finding to the experiences of a senior practitioner. Finally, a limited amount of secondary-source data is brought into account to contextualise the issues, where it was felt it would extra insight. It should be made clear, given the relatively modest contribution of quantitative data to this research, that the data is presented using simple tables interspersed with a brief discussion of the results.

The rationale for separating the findings into two chapters, one wholly quantitative the other, next chapter, mainly qualitative, is that this allows the quantitative data to be presented in a largely unabridged form, given that they are targeted at a practitioner audience who, as previously noted, are more familiar with this type of data. Accordingly Chapters 8 and 9 will be devoted to the organisation, synthesis and discussion of the data obtained during the interview phase of the research programme.

### 7.1 The importance of referrals

The first research objective to be addressed by the findings in this chapter is to assess the relative importance of referrals to advisors and consumers, and consider the relevance of referrals to advisor selection. The intention is to quantify the importance of referrals as a means of new client capture and to identify the key factors that influence consumers when they select a financial advisor. Accordingly

the research questionnaire asked advisors to quantify the both the number and the percentage of new clients generated from referrals during 2013. The data is organised in order that closely connected issues can be displayed within a single table.

Table 7.1. Quantifying the importance of referrals (2013)

I. Percentage of new clients arising from referrals

<b>Percentage</b>	<b>Numbers of advisors</b>
81% - 100%	14
75% - 80%	1
51% - 74%	2
26% - 50%	2
0% - 25%	1
Total	20

II. Numbers of referrals per advisor

<b>Number of referrals</b>	<b>Number of advisors</b>
Over 11	4
6 - 10	4
1 – 5	3
Zero	0
Don't know	9
Total	20

### III. Percentage of referrals who became clients

<b>Percentage success</b>	<b>Number of advisors</b>
Over 85%	13
76% - 85%	5
51% - 75%	1
26% - 50%	1
0% - 25%	0
Total	20

It was found that 14 of 20 advisors indicated that they attained more than four out of five of their new clients, during 2013 by referrals. One respondent (A6) who selected the 0%- 25% range later explained that he has not been actively pursuing new clients. Of the two advisors who choose the 26% - 50% range, one (A5), explained that all his new clients were provided by the firm and the other, (A17), described his as emerging from 'leads' generated from participating in radio programmes concerning financial advice, which he felt should be treated as reducing the percentage of new clients he obtained from referrals. It is noteworthy that A17 was the only respondent who indicated the use of an alternative, successful, method of new client acquisition. Nine advisors (45%) reported that 100% of their new clients had come from referrals.

Table 7.1 (II) shows that nine of the 20 respondents could not estimate referral numbers, but all reported that they received a referral during 2013. Of the remaining 11 advisors four reported in excess of 11 referrals during 2013. This uncertainty over the numbers of referrals makes it difficult to draw any meaningful conclusions from

the data. The sample of 20 IFAs, which included sole traders, smaller and larger companies, may not reflect the entire advisor population, which comprises mainly smaller companies, since seven of the 20 respondents operated within larger companies. It was observed that it was the smaller firms and sole traders who reported the largest number of referrals.

The number of referrals that were converted to clients is also considered important in the sense that it validates the value placed on referrals. Table 7.1 (III) emphasizes the value of referrals, showing that 90% of respondents agreed that more than three quarters had become clients. It is unlikely that other sources of prospective clients are so productive.

My own experience indicates that referrals are a rarity, particularly for smaller companies, since they have often mined their limited referral sources to the extent that the flow of referrals is rationed. Both as an advisor and as a CEO, I found that a referral was a cause for celebration and relatively uncommon. I found too that client-facing staff rarely obtained referrals regardless, of the inducement. Even when a separate bonus pool was created, it had no measurable effect. In other words, my own experiences contradict the estimates provided by the sample. A possible explanation for this contradiction is that overestimations may reflect a desire to be perceived as a recipient of referrals, which some in the advice community may view as signifying a badge of quality.

A second set of respondents, consumers of advice, were asked to indicate, from a range of possibilities, the factors they considered to be most influential in the selection of an advisor. Table 7.2 displays the results

Table 7.2. Most important factor in the selection of an IFA

<b>Answer</b>	<b>Number of respondents</b>
Recommendation	21
Website content	4
Chartered advisor	2
Advertising	1
Location	1
Other	1
Total	30

Correspondingly these respondents named a recommendation as by far the most important factor, 70% of them selecting from the list of answers. Other scholars have also found that respondents, without an advisor, cited referral as the most likely source of finding one in the future (Hung et al, 2008:107). The data seems to indicate that a recommendation is of equal importance to both advisors and consumers of advice.

Lastly, a sample of do-it-yourself (DIY) investors was asked to select one answer that explained how they would approach the selection of an advisor if they felt the need for independent advice in the future. The results in Table 7.3 and clearly emphasise, yet again, the importance of a recommendation in the selection process. It should be noted that, because DIY investors are thought to be influenced by the cost of advice, the option 'other' used in the consumer survey, was replaced by 'fees' as a response option. The results mirror the client survey with two thirds of DIY consumers favouring a recommendation, over other choices, as the most important factor in advisor selection.

Table 7.3 Factors most influencing choice of future financial advisor

<b>Answer</b>	<b>Number of DIY consumers</b>
Recommendation	10
Website content	2
Chartered advisor	1
Advertising	0
Location	0
Fees	2
Total	15

When interpreting the results with regard to the importance of referrals, the findings suggest that the number and percentage generated by advisors should be treated with a degree of caution. A possible explanation is that advisors would like the world to believe that they obtain the majority of clients from referrals, whatever the facts. Even allowing for the uncertainty over referral numbers, in the absence of any other declared method of new client generation, it does seem clear that referrals represent the most important source of new clients for advisors. Despite the reservations expressed above, it is apparent that advisors consider referrals to be of vital importance.

## 7.2. Managing for referrals

The objective of the research reported in this section was to explore the validity of assumptions regarding the generation of referrals, in particular the extent to which advisors can solicit for referrals. Practitioners were invited to say what strategies they used to attract referrals, as it became clear that assumptions circulating in the advice community include the belief that referrals can be solicited by influencing clients to refer. In turn, advisors assume that asking, in the right way, will induce clients to provide an introduction. Indeed the perception appears to be that asking is an essential part of an advisors toolkit. An example of these embedded beliefs is presented by Caneva (2014), who when writing in an advisor blog, assumes that 'There are plenty of online resources on how to ask clients for referrals. Conversion rates and quality are very good'.

The assumption that asking is effective appears to be so widely held that it was logical to explore whether or not it is valid, in both survey and interview phases of the research. A two-step process first invited advisors to confirm whether they did or did not ask for referrals, to establish if they had any confidence in the assumption that asking works. Secondly, it asked advisors to say how successful they had been in asking for referrals. The first findings are reported in Table 7.4 (I) which shows the answers to the question 'Do you ask for referrals?' It was reasoned that if asking was indeed effective, advisors would have experimented with ways of doing so and would be doing so on a regular basis.



Table 7.4. Propensity and effectiveness of asking for referrals

I. Do you ask clients for referrals?

<b>Answer</b>	<b>Number of advisors</b>
Always	1
Often	4
Rarely	9
Never	5
Not sure	1
Total	20

II. Does asking for referrals work?

<b>Answer</b>	<b>Number of advisors</b>
Always	0
Often	2
Rarely	9
Never	6
Not sure	3
Total	20

As Table 7.4.I shows, more than two thirds of all advisors 'rarely' or 'never' ask for referrals. If asking for referrals was effective, then the expectation would be that advisors would always ask for a referral. However, Table 7.4.II shows that exactly three quarters reported that they 'rarely' or 'never' obtain a referral following a request. Something to be considered is that, despite an understanding that asking is relatively ineffective, employed advisors working under supervision, unlike sole traders, may be required or encouraged to ask for referral as part of their employer's business model.

Adding weight to advisors' perception that asking is ineffective, Table 7.5.I shows that clients are unwilling to respond favourably to a request for an introduction. No respondents declared readiness to provide a name, although a third of respondents said they would do so if they were asked by a friend, colleague or relative. Almost half said they would not introduce a friend, relative or colleague without knowing that they needed financial advice. Combining the negative responses Table 7.5.I reveals that 86% consumers of advice would not introduce a friend or relative to an IFA without consent or without knowing that a friend had a financial need. This finding suggests that the reluctance of advisors to ask for referrals is well placed, and perhaps indicates that advisors have an intuitive understanding that consumers will not refer without being asked, by a friend, to do so

Table 7.5. Client attitudes to requests for introductions

I. How would you respond if your IFA asked you for an introduction?

<b>Answer</b>	<b>Number of clients</b>
I would decline as I don't know when my friends need advice	16
I would provide a name	0
I would introduce my IFA if a friend gave me consent to do so	10
I would be uncomfortable	4
Total	30

II. Has your IFA asked you for referrals?

<b>Answer</b>	<b>Number of clients</b>
Always	0
Often	2
Once	6
Never	19
Not sure	3
Total	30

III. I have made an introduction(s) to my IFA during 2013

<b>Answer</b>	<b>Number of clients</b>
Strongly Disagree	1
Disagree	15
Not sure	2
Agree	12
Strongly agree	0
Total	30

Since 70% of IFAs say they either ‘never’ or ‘rarely’ asked for referrals (Table 7.4), it seemed appropriate to corroborate these findings by asking clients if their IFA had asked them for an introduction. Table 7.5.II shows the replies from clients anchored from ‘always’ to ‘never’. The results match the findings from the advisor survey, in that almost two thirds of client’s said that they have never been asked for an introduction, although six reported that they had been asked ‘once’. The results confirm that advisors are reluctant to ask their clients for an introduction despite an embedded belief that they should be asking for referrals. When asked if they had introduced someone to their IFA 40% of clients agreed that they had done so while half said they had not. While this will be reassuring to IFAs, superficially, the data does invite further questions as the majority of clients are choosing not to refer. This raises a number of possibilities including the possibility that the clients have not been approached to do so by any third party. This explanation is supported by the results displayed in Table 7.5.I, which revealed that clients only elect to refer following a request or when they identified a need. Based on the evidence so far, these findings clearly contradict the claims of consultants who allege that referrals can be obtained by asking. They also would appear to challenge the claims of consultants that advisors can influence referrals by a form of linguistic dexterity.

In order to confirm these findings, a question was framed (Table 7.6) allowing consumers of financial services to select a response that best matched their reasons for electing not to refer. Since, to a certain extent, this would support the belief that asking was effective, one of the responses provided an opportunity for clients to confirm that they had not referred because their IFA had not asked them to do so, yet only one of 30 clients answered affirmatively. Table 7.6 shows that an overwhelming majority of clients reported that they had not made a recommendation, because they had yet to be asked to do so, by a friend, colleague or relative. These results appear to support the findings of Table 7.5.1: that introductions are rarely made, if ever, unless a friend, colleague or relative instigates the introductory process.

Table 7.6. Reasons for not recommending an IFA

<b>Answer</b>	<b>Number of clients</b>
My reputation would be at risk if the advice turned out to be inappropriate	5
No-one has asked me to recommend my IFA	22
My IFA has not asked me	1
I do not recommend service providers	2
Total	30

When exploring other possibilities of managing for referrals it was observed that Helm (2003) had found an absence of quantitative data in this area. Consequently since scholars, writing in related fields have suggested that rewards may have a role to play in stimulating word-of mouth (Ryu & Feick, 2007), clients were asked whether

the offer of a reward would encourage them to refer. Table 7.7 shows that no respondent strongly disagreed, with the notion of a reward, and that over 50% (16 of 30) agreed or strongly agreed that a reward would encourage them to refer.

Table 7.7. A financial reward would provide encouragement to recommend

<b>Answer</b>	<b>Number of clients</b>
Strongly agree	3
Agree	13
Not sure	9
Disagree	5
Strongly disagree	0
Total	30

The question of rewards did raise strong emotions during interviews and will be developed further in the next chapter, since some respondents, initially and intuitively rejected the idea of being rewarded, on ethical grounds, before reflecting and deciding to agree with the proposition.

Something to be considered is that consumer attitudes may be changing following the advent of consumer agreed remuneration as the abolition of commission has heralded greater transparency over costs. Understandably a client paying £10,000 pa (1% of £1m) may seek to negotiate better terms particularly as a fee that solely relates to asset values, will rise or fall, with increases in investment returns, which arguably are outside the control of the advisor.

A question was framed to discover whether or not advisors regard all referrals equally, in light of the finding that IFAs usually have minimum acceptance criteria in terms of capital value or set a minimum fee. In addition a number of advisors make it clear that they would not take on a referred client who ‘does not engage’ with the advisor service proposals (Robertson, 2014:16; Rogers, 2014:16). That being so, the results presented in Table 7.8 are likely to concern practitioners since when consumers were asked whether they would refer again, if a previous referral was rejected by their IFA, just under a half answered that they would not refer again. Another 40% were uncertain how they would react, and only four said they would refer again. These findings appear to indicate that advisors need to consider carefully before rejecting a referral.

Table 7.8. Likelihood of further referrals after the rejection of a previous introduction

<b>Answer</b>	<b>Number of clients</b>
Strongly agree	1
Agree	4
Not sure	12
Disagree	13
Strongly disagree	0
Total	30

These results indicate that consumers may be discouraged from making further introductions if a previous referral was rejected, which may lead IFAs to reconsider how to manage referrals that do not fit the client profile they seek. Advisors have been found to adopt different methods to discourage unsuitable clients, one explaining that ‘we just tell them our service will not represent value for money...’

and offering to 'put them in touch with someone of similar qualifications' (Glassey, 2014:16). While another said that 'the fees I am going to charge you are disproportionate to any value you're going to get for your advice' but adds 'we do not refer potential clients to other advisors...I would find it difficult to refer to anyone else' (Rogers, 2014:16). The implication seems to be that he views the advice provided by his firm to be superior since he implies that other advisors might act in an unscrupulous manner by alleging that 'some people (advisors) would take a £3,000 fee...'. (Rogers, 2014:16).

During the interviews, it was noted, that advisors often felt the need to imply that their own practice was ethical and above reproach but that other (always unnamed) advisors might not be operating with the same level of integrity. Evidence implying unprofessional behaviour appeared to be based on uncorroborated stories, hearsay, or third hand accounts originating from undisclosed sources. These commentaries appear to be designed as a tactic for self-promotion embedded within a belief system that feels the need to criticise peers. If members of the same occupational group are willing to disparage each other in this way, perhaps this is a factor in reinforcing and perpetuating the sense of mistrust of financial advisors.

Advisors are guilty of making sweeping assumptions about fellow practitioners, resulting in such generalisations as 'too much of the industry is still focused on products and not enough of it is focused on delivering true value to the client' (Martin, 2014:25). However when this author later describes his own practice as a member of a '*profession*', rather than an '*industry*', he appears to be suggesting his firm is part of an elite group *because 'there are a lot of us working hard to spread the word'*.

Such infighting also presents sections of the media with an opportunity to characterise some advisors as an 'out-and-out rogue' based on the impressions of 'a few (trusted advisor) contacts', of the journalist, who indicated they would 'just trust



one in five of the wider profession' (Evans, 2014:16). Perhaps if Evans disclosed who his trusted 'contacts' are, his story would have more credibility since one can only speculate what type of measurement his contacts might have used to establish how one advisor can be trusted over another. It also begs the question how these 'contacts' could possibly know that 20% of the entire 'wider' advice 'profession' could be trusted, when it is extremely unlikely they have had contact with more than a handful of the thousands of advisors, operating in the UK, let alone be in a position to judge know their proficiency.

Evans (2014:16) does conclude by advocating 'word-of-mouth' recommendation as an effective basis to select an advisor, provided the referral source has had a long association with the advisor. Importantly, he qualifies his remarks by arguing that a prospective client should seek assurances over performance to ensure the referral provider is 'happy with the results' before proposing to 'give them a try'. The sense is that he perceives the advice process to resemble taking a car for a test drive, and one solely associated with investment, in that there is 'no guarantee that you'll be guided toward the right investments'. It appears that despite the RDR and attempts at professionalising the sector, financial journalists still perceive financial advice to be a process that is primarily concerned with selecting an investment, seemingly oblivious to the increasing numbers within the advice sector who publicly dispute that investment selection plays a significant role in investment returns.

The finding that advisors and some media commentators are making derogatory remarks about practitioners presents an opportunity for professional bodies to encourage IFAs to report poor practice, rather than stigmatising their peers, and to generate a publicity campaign that articulates the role of a financial advisor with greater clarity. Given that IFAs must only have superficial knowledge of their competitors, it seems likely that the majority of the critical comments are baseless, leading to the conclusion that commentaries are being made mainly for self-promotion.

### 7.3. Conclusion

The purpose of this study is to add to current knowledge concerning the role of referrals in new client capture in the independent financial advice sector. The specific focus is on client referrals and whether referrals can be managed for by advisors, so it explores the inter-related beliefs of both advisors and clients in depth. Many paradoxes have been detected, notably that while advisors believe they should ask for referrals the quantitative data suggests that they are reluctant to do so, and that clients are prepared to refer but are unwilling to introduce someone with a prior request. A body of assumptive language and embedded beliefs has built up concerning referrals, supported by the consultancy industry, professional bodies and others, and characterised by an absence of empirical evidence. Data from this thesis will seek to inform existing thinking in this field and enlighten practitioners. The attention of the next chapter shifts from survey to the findings of the semi-structured interviews.

## Chapter 8 - Referrals: misunderstandings and misapprehension

### 8.1 Introduction

This research was originated to investigate the importance of referrals, explore whether embedded assumptions in circulation, connected with referral generation, are valid. In addition it was hoped to discover whether a reliable method of generating referrals could be identified and lastly to conceptualise and define the referral process. In order to pursue this investigation, greater weight was given to consumer responses as it was reasoned that consumers know more of why they refer and because previous studies have tended to focus on the views of practitioners who, it is imagined can only speculate about the circumstances behind client referrals. Chapter 7 reported on the quantitative survey data and presented findings associated with, first the importance of referrals and, second, the effectiveness and value of soliciting for referrals by asking for referrals. This Chapter will now report the qualitative data that has been collected via semi-structured interviews.

### 8.2 Background

It was found that referral is a word in common usage among practitioners however consumers are less familiar with the term. Whilst many consumers guessed at the meaning, few use referral to describe what they think of as a recommendation. Perhaps this language discrepancy adds to the difficulties practitioners find in expressing themselves when seeking to describe their services in a way that clients understand. This matches the views of Lewis (2014), Chair of the Financial Services Consumer Panel, who asserts that '*...consumers are suspicious of an industry that seems incapable of talking in plain language*'. Practitioners view referrals that come from accountants, lawyers and other professionals as flowing from '*professional*

*connections'* (A9i). Such professional referrals are likely to be induced by fee sharing or reciprocal arrangements, when one introduction is mirrored by the other party. However some professional introductions, do occur without commercial reciprocity although only two of the advisors said that fees sharing is not always necessary. For example: *'I have asked them if they want share fees ...I thought that was the reason I wasn't getting enough ...100% said they do not want to share fees which is very pleasing'* (A14i). This comment and others like it suggest that many advisors, perhaps like other professionals, seldom receive positive feedback in their daily endeavours and the sense was that they view a costless referral as an endorsement of their professionalism and reputation.

As the interviews progressed, it was noted that practitioners often sought to direct the interview toward areas where they could voice criticism rather than focus on the complexities of the research question. It was not clear whether this was to avoid acknowledging understanding of the issues or a rare opportunity to share concerns with someone they perceived to be a kindred spirit. It was noted that advisors often made a statement, rather than ask a question, when what they were actually seeking was an answer to their opinions. Indeed, one advisor, was so sure of his ground he began to offer his views on the demise of the financial services industry before an interview question had been put to him, assuming that a fellow practitioner would be interested in his state of the nation address. This was disconcerting to the interviewer, since it was unclear whether to respond or just acknowledge the statement, which in the main was the solution adopted.

Consumers appeared to welcome the interview, one commenting that *'this has made me rethink my relationship with my IFA'* (C19i). It was a surprise to find that some DIY consumers appeared to be somewhat suspicious of the research objectives, initially, one questioning whether the research was a covert method of developing new clients by asking, with a laugh, *'is this a very long winded way of asking me if I have got any money to invest!'* (D13i).

The first time I encountered this issue, I was concerned that consumers might misconstrue my research objectives. I subsequently found that ‘sugging’ is a documented unethical selling practice, one which consumers are understandably wary of (Brennan, 2005:67).

### 8.3 Data reporting

To shed light on the antecedents of referral, the interview dialogues begins by utilising data appropriate to the importance of referrals, addresses the mythology surrounding them, then explores the referral generation process and presents data concerning what is thought to influence referrals. Lastly, the origins of the referrals is explored before a fresh conceptualisation of referrals is presented. In addition to the reporting of interview data, where appropriate, themes emerging from primary and secondary, data, emerging from industry sources, are juxtaposed with personal reflection. As noted in earlier, the participants are coded as shown in Table 8.1

Table 8.1 Participant code

<b>Advisor Code</b> <b>(Example)</b>	<b>Client Code</b> <b>(Example)</b>	<b>DIY Code</b> <b>(Example)</b>
(A2i)	(C2i)	(D2i)

#### 8.4 The importance of referrals: 'what else is there?'

Referrals are undoubtedly of importance to advisors, but also for consumers as they act as a conduit which connects consumers to advisors. It was found that consumers were not aware how important referrals are for advisors but did, in the main, confirm that they usually utilised a referral or verbal assurance when making important purchase decisions, because *'you cannot be an expert in every field...you usually know someone who has previously used a service you are considering using'* (C18i). The importance of referrals to consumers was supported by the survey questionnaire responses since not only did the majority of consumers use a recommendation to select between IFAs, 29 of the 30 also reported that they used a 'recommendation' or professional 'introduction' to locate an advisor. That finding now fits with the interview responses, as both clients and DIY consumers identified a recommendation as being the most usual method for selecting professional advice, since no other theme emerged with conquerable weight. Indeed, in other recent research conducted for the FCA, a recommendation was found to be so influential in deciding whether to seek advice, that the absence of a recommendation is thought to prevent consumers from seeking advice at all (NMG, 2014). How consumers interpret the nature of positive word-of-mouth is not clear although the shared sense was that a recommendation is a crucially important determinant in adviser selection and referral generation.

Underlying the importance of referrals is the idea that the buying process is infected with risk, in that consumers have difficulty understanding complex services and collecting sufficient information to make an informed decision (Murray, 1991). In order to mitigate these risks consumers seek personal recommendations, which reinforces the importance of referrals as they are thought to be free of bias and sincere (Murray, 1991; Zeithaml, 1981). This has led academics to posit that such 'personal sources of information', like referrals, and 'informal channels', have an important role to play in the process (Mangold et al, 1999; Murray, 1991:20; Reingen & Kernan, 1986:370; Sweeney et al, 2008). Both the survey and interview data are unambiguous in recognising the importance of referrals to practitioners. It was found

that no other marketing methods were being used or considered effective save for two advisors who had found success with local radio appearances. However, they both also acknowledged that referrals played a significant role in capturing new clients. The fundamental importance of referrals to practitioners was revealed, perhaps for the first time, when they reported during the interviews that they had *'no idea how difficult finding clients would be... without referrals we would struggle'* (A4i) and that *'all our work comes from referrals...flattering really'* (A6i). The sense was palpable that advisors felt that referrals to be a reward for good practice, which may go some way toward explaining why they consider service quality is a factor in generating referrals.

To illustrate the importance of referrals, financial advisors readily acknowledged *'underestimating the amount of work involved in attracting clients'* and to a level of naivety, by assuming that *'if you build it, clients will come'* (Thomas, 2014). The recognition that sourcing clients is problematic emphasises the value of referrals and highlights the problems advisors find in identifying with an orthodox marketing method that works. This was made clear when one advisor explained *'we don't do any marketing, it all comes from referrals'* (A5i). Referrals are considered by many as the only source of new clients as one made clear *'we don't advertise...and rely 100% on referrals'* (A17i) while another was unequivocal *'what else is there...'* *advertising doesn't work in our field'* (A9i). Referrals are clearly viewed to be of *'fundamental importance'* (A8i) as a way to capture new clients but they are also a very reliable source, as advisors say they convert *'100% of those [referrals] I actually get to speak to'* (A12i).

Advisors who work for or with accountants and solicitors point out that the culture of professional firms still reflects the time when *'the culture was that marketing was not permitted'* and there is *'pretty much a hangover of that now'*, with the result that they also appear to rely on referrals, believing that accountants have *'no sales skills'* (A14i). This sense was reinforced by another practitioner who commented that:

‘when I started in the business, sales skills where valued much more highly than other skills...so we came from a business where sales are everything and they [accountants] come from a business where sales are forbidden’ (A8i).

Practitioners do not concern themselves with defining referrals, but rather they appear to view them as an important means of client acquisition that could equally be described as ‘*a lead or an introduction from a professional source like an accountant or solicitor*’ (A6i). Another reported, on the other hand, that a referral can be explained as occurring when ‘*one of my clients says to a prospect go and talk to James*’ (A8i). The key role of referrals was emphasised by one practitioner who remarked that ‘*There is the capacity for more clients...but until I get more referrals I can’t see where they are going to come from*’ (A20i). This is a view supported by professionals in other fields seeking to build a practice, one of whom reported that ‘*just sitting tight and the client base will look after you*’ (C11i). These comments demonstrate the difficulties in sourcing new clients, particularly for smaller firms and start-ups without the resources to mount marketing campaigns, while underscoring the general importance of referrals for practitioners.


Despite recognising the importance of referrals advisors do not accept all referrals. Some reported that they reject referrals who do not meet minimum fee or investment levels and they attempted to filter out prospects they feel might be troublesome. While all but one advisor said they had a core client prerequisites, it was a surprise to hear that no practice had joint-venture arrangements with other firms in place, to send referrals to that they did not want. Six clients described how, when they had offered a referral their advisor they had felt let down, by the way the referral was handled on discovering that the referral had been rejected. This led them and other clients to say that they would not refer again once a referral had been rejected. An equal number of clients were more sanguine, however, understanding that the ‘*fit has to be right*’ (C8i). Consequently, when the survey and interview responses are combined, it remains unclear whether or not rejecting a referral will always have consequences for future referrals.



### 8.4.1 Referrals and other methods of new client capture

Despite the fundamental importance of referrals, practitioners reported experimenting in the past with a range of other marketing methods to capture new clients. Accordingly, the relative importance of those alternatives should be contextualised alongside referrals. Table 8.2 juxtaposes the various other marketing methods that emerged from the data alongside referrals, to provide an overarching picture of new client capture in the field of independent financial advice. The methods used in Table 8.2 are arranged according to the perceived quality of each method in terms of value to advisors, defined as the likelihood of success in generating a new client. The ranking of the effectiveness of the various marketing methods was influenced by advisors' statements during interviews, augmented by the experiences of the researcher as a senior practitioner.

Table 8.2. Marketing methods for the capture of new clients

Marketing Method	Focus	Quality
Advertising	Yellow pages, mail shots, local newspaper	 <p>LOW</p> <p>HIGH</p>
Leads	General enquiries, leads, (qualified/unqualified)	
Seminars	Mailing lists	
Media	Radio, press releases, magazine articles	
Social	Client entertainment, lunches, sports attendances	
Presentations	Public speaking, networking	
Introductions	Professionals e.g. accountants, solicitors. Via search for an IFA websites	
Referrals	Clients	

A brief outline of the most common marketing methods is now presented augmented by interview data to help to explain how each method is perceived

#### 8.4.2 Advertising

The interview data revealed that advertising was considered ineffective, particularly the use of Yellow Pages, which one participant described as a *'useless'* way to generate enquiries (A3i). Another advisor noted that *'if you look after the client base the client base looks after you... sounds a bit old school but we spent 10k on glossy magazine advertising and got one phone call'* (A16i). It was noticeable that no participant is currently using advertising as marketing method, which may reflect dissatisfaction with the outcomes from previous advertising efforts or the perception it will never produce the desired outcome. Undoubtedly, the cost of advertising will be an issue for those practitioners with limited resources, but perhaps of more importance is that of managing demand.

Against the reluctance of advisors to advertise, one consumer of advice reported using *'village magazines'* (C6i) for information and support when making decisions over selecting services, while another said that he regularly advertises *in 'his local village paper'* and had *'found it of value'* (C18i). It was observed that consumers who lived a village often made mention of the village newspaper as a source of information, whereas print media did not feature in discussions with consumers who lived in a town or city.

#### 8.4.3 Enquiries and leads

Lead is word used by many advisors to describe an enquiry that has not arisen from a client referral or as an introduction from a professional source. Confusingly, however, advisors also occasionally described referrals as stemming from *'leads'*

(A12i) or *'introductions'* (A15i). Although this study did not call for clarification of the underlining meaning of each term, it seemed clear that advisors were describing a situation in which a prospective client was generated. Only one advisor reported that they had purchased or use a lead generation service, and quickly they added that *'they declined in quality dramatically so I don't use them now'* (A17i). Leads are often referred to as 'qualified' or 'unqualified', according to the source and quality of the prospect and usually to assess the likelihood that the prospect has the potential to become a client. It was also noted that no advisor reported using a referral programme although two advisors did say that they had used lead-generation services in the past, which they now no longer found to be of value. For example, when explaining how he grew his business, one advisor said that he purchased

'Leads from XYZ company which they sell on to advisors. Back in 2004, when I set up, you could buy term assurance leads at £35 a pop...so what I did was buy 35 leads a month...700 quid...worked it like hell...went out to see people their homes... sold term assurance... built the business on that' (A12i)

He went on to explain that the leads become less valuable:

'What happened...mobile phones!... you will get a lead through and there would nearly always be a landline contact ...and it ended up that you were only getting mobile contact numbers...and what happens when someone got a mobile...if they get a phone from someone they don't recognise...a lot of people just don't take the call. They let it go to voicemail... listen afterwards and what that does... it decreases the chance of that you might speak to the person and turn the lead into a sale...as simple as that. So whereas originally I was getting through to 100% of people in 2004...by the time I knocked it on the head... in about 2009...my average was previously 50%...' (A12i)

Interview comments showed that advisors thought referrals were more likely to come from *'business people'* (A7i), particularly those in medium-to large-enterprises:

‘It happens more amongst business people because referring is less personal for them, as they see it as another service which makes it much easier for business people to recommended you’ (A7i).

This perception was supported by another advisor, who argued that ‘...at the end of the day all business owners wish to refer their clients to other professionals they can trust and can offer a good service’ (A14i).

#### 8.4.4 Public speaking and networking

Few practitioners reported that they regularly engage in any form of public speaking and when they did, it tended to be technical presentations to small occupational groups, for example to ‘*conduct regular meetings with dentists as his accountant has a connection*’ (A3i). It was fascinating to learn that two of the advisors (A10i & A17i) contribute to local radio programmes concerning financial advice, both speaking very highly of the response they obtain from this form of marketing. One explained that ‘*Most of our business these days comes by referral from existing clients and as a result of my weekly BBC Local Radio presentation*’ (A17i). It was interesting that both these advisors practice outside of London and the Home Counties, which may have a bearing on the response rates. No other advisor indicated that they used media advertising, although two advisors did say they had written articles for various publications, but without any meaningful responses.

A number of advisors said they had paid to join networking events but found they were ineffective vehicles:

‘The reason I dropped out of [XYZ network]...even though they talk a lot of crap about vetting people...in reality... the only vetting was... did the membership cheque clear or did it bounce? My word they were taking on all

sorts of riff raff...they took on a guy who was a pretend osteopath... he had no qualifications' (A17i).

#### 8.4.5 Seminars

No participant was actively engaged in seminar marketing. This may be a reflection of the associated cost and organisational requirements with seminars but it is more likely a legacy of overuse during the 1980s and 1990s leading to the decrease in numbers of consumers willing to attend seminars today. It is also supposed that the introduction of the internet has led to a more informed consumer, who no longer needs to attend a seminar to learn of financial planning. As one advisor who was jaundiced about the value of seminars put it, '*We have tried seminars but found them to be hopeless as attendees are just going to gain information and are often competitors*' (A2i)

#### 8.4.6 Professional connections

Advisors view influencing their professional connections as a key element in their marketing strategy. This can take many forms, but a commonly held view was expressed by A14i, who said that '*networking and developing relationships with other professionals*' was his main method of attracting new business. Interestingly, when asked if they socialised with clients, no advisor mentioned any form of client gathering other than the '*odd round of golf*' (A2i). Nineteen of the 20 advisors were found to be attempting to induce referrals from professional sources, principally accountants and solicitors, by way of fee sharing, other payments or the offer of business reciprocation. They did not delineate between a referral obtained without inducement and one induced. The sense was that professional introductions were highly valued: '*Although I also encourage clients to refer but accountants are by far the best type of introducers*' (A8i). Practitioners indicated that social interaction with professional introducers was sought but noted that it was unlikely to induce referrals:

'If I talk to lawyers as an example...we have a very nice lunch and all the rest of it...talking about referrals... it rarely works (asking) but it does sometimes...I don't believe anyone is ever going to open up their book of clients because you smiled nicely and bought them a pie and pint or whatever' (A13i).

This thinking runs counter to the findings of Howden and Pressey (2008:801), however, who indicate the utilisation of each other's networks, perhaps shared during social discourse, may lead to further 'referral work'.

Fascinating stories did emerge of contacts in high places who facilitated access to venues, such as the House of Lords and Ascot, which the advisor could use to impress guests. Others had provided gift vouchers for events and accompanied clients to sports events. Practitioners did not maintain an event register, rather they reacted when a client expressed interest in a particular area. It was made clear that only high-value clients were likely to be beneficiaries of any marketing initiative. Advisors were asked if they had considered inviting existing clients to bring someone new to an event, as a means of referral generation, but typically they thought '*it was unlikely to effective and might be counterproductive*' (A8i). A number of advisors did say that they received valuable enquiries from websites, targeting consumers seeking IFAs, but they made clear that they are '*unlikely to get more than 3 or four a year*' (A17i).

#### 8.4.7 'Waiting for the phone to ring...'

Listening to advisors and reviewing the marketing techniques practitioners employ, it seemed that the marketing methods could be separated into those that are actionable and those that are more passive in nature. The marketing methods used by advisors can be described as active when steps are taken to begin a process over which the advisor has a degree of control over. Hence a decision to advertise or

arrange a seminar, where the message is envisaged to reach more than one prospective client, can be viewed as active marketing. Perversely, it is from passive marketing, in which new business is generated without a single overt initiative, usually targeted at one individual, that the majority of new clients are obtained. It was surprising to learn that advisors appear to treat professional introductions as equal in value to client referrals, when they acknowledge that professional introductions are actively pursued and encouraged, while client referrals are rarely cultivated. Accordingly, the time spent in pursuit of a professional introduction has to be considered when assessing the value of these introductions as a marketing tactic. Client referrals emerge, by contrast, passively, and without attendant time costs. It is also evident that professional referrals usually involve some form of commercial consideration, unlike client referrals. One advisor reported that they remunerate introducers by way of a *'marketing allowance for each referral'* (A16i) while other advisors said that they paid an *'introductory fee'* (A8i) or agreed *'to introduce one of our clients in return'* (A15i).

The data indicate that professional referrals usually only emerge when a need is identified by the client, since such professional intermediaries like accountants and solicitors do not spend time consciously seeking work for advisors, unless they are motivated commercially, to do so. Advisors who are employed by accountancy or legal practices explained that they still needed to encourage internal referrals, as *'They won't introduce someone without a clear need. I would just like to work through the client base but this isn't going to happen'* (A16i). These remarks support the proposition that prospective clients will identify a need before seeking advice. Advisors acknowledge differentiating in their marketing attempts since they rarely seek referrals from their clients while actively encouraging introductions from professional sources. The attitudinal distinction was clearly defined by one advisor who, in response to the question 'What do you do to encourage client referrals?' bravely answered *'I wait for the phone to ring'* (A20i). This pithy response is probably closer to the truth than many advisors would be willing to admit. On the other hand, when asked about his professional connections he said he *'actively pursues them'* (A20i), offering technical updates and preparing mutual client meetings, consciously seeking to identify an opportunity to introduce a reciprocal client. Table 8.3

distinguishes three categories of marketing effort: active, where a decision is made by the originator to begin a process that may lead to a new client; encouragement, which mainly makes use of word-of-mouth to encourage new client introductions, largely influenced by a form of inducement; and passive, which advisors believe to occur to some extent subliminally. Understandably, advisors are more engaged with the second activity as they can discuss the commercial advantages to be gained with the introducers, while engaging in face-to face conversations with individual potential clients at events.

Table 8.3. Marketing by active solicitation, encouragement or passivity

<b>Marketing Method</b>	<b>Focus</b>	<b>Method</b>
Advertising	Yellow pages, mail shots, local newspaper	<b>Active</b>
Leads	General enquiries, leads, (qualified/unqualified)	
Seminars	Mailing lists	
Media	Radio, press releases, magazine articles	
Social	Client entertainment, lunches, sports attendances	<b>Encouraged</b>
Presentations	Public speaking, networking	
Introductions	Professionals e.g. accountants, solicitors. Via search for an IFA websites	
Referrals	Clients	<b>Passive</b>

Introductions from professional sources such as accountants and solicitors are highly prized, and participants reported strenuous efforts to find and retain professional connections. No evidence was found of any similar energies being directed at clients to encourage referrals. This is surprising, since advisors genuinely believe they influence referrals but they were unable to explain the causal link between influence



and a referral. It would seem that advisors are content to describe introductions from professional sources as equal to client referrals despite the clear differences in the level of effort they put in to sourcing each referral. Advisors acknowledge that commercial considerations play a part in most professional introductions, yet they do not appear to factor in the cost of acquisition when placing a value on referral sources. It was apparent in the discussions with advisors that a professional introduction, from an accountant or solicitor, is held in high esteem, undoubtedly more so than a client referral, seemingly regarding them as a form of endorsement of their own professional capability. Perhaps this plays into a desire to enjoy a similar recognition as those in the classical professions. Advisors perceive that forming a relationship with a professional firm, capable of delivering an ongoing supply of client introductions, is of more value than individual client referrals.

While advisors may aspire to manage all the money that clients have to invest, high-net-worth investors will occasionally spread their assets across more than one advisor, preferring to spread their investments across different advisors, in order to diversify the type of advice and to provide an alternative benchmark for comparison purposes, or both. It is noted that authors, exploring related fields also found that clients often only reveal part of the problem to one advisor, having a tendency to 'treat advisors as specialists' (Dyer & Ross, 2007:140).

#### 8.4.8 Conclusion

This section of the chapter has established that advisors value referrals above all other sources of new client capture. Yet, paradoxically, they do not monitor referral numbers, dates, sources, causation and consequently they are unable to explain the relative differences in referral generation for advisors within the same practice. The importance of referrals was confirmed by both survey and interview responses when the scarcity of reliable alternative methods of new client capture underlined the crucial role of referrals in securing new clients in this field.

## 8.5. 'If you don't ask, you may not get'

According to Grönroos (1978), one of the difficulties in marketing a service is that of converting an intangible proposition into one that is tangible. While he was speaking from a Nordic perspective and concerned with services as a whole, arguably, as the findings of the present study arguably show that the challenge is magnified in the case of professional services. It was found that practitioners struggle to explain the service they offer:

'For whatever reason they just haven't got it...if they can't tell me... what are they saying to someone else...speak to David because what he does is [err um]...My conclusion is that I have failed to communicate effectively what I am doing for them' (A18i).

Academics have mainly concerned themselves with the differences between services and goods, noting that services face particular problems, while observing that ideas from one field are unlikely to transfer (Jan, 2012). As marketing in the financial sector is thought to be especially challenging, authors have argued that marketing ideas need to be appropriate for each sector; leading scholars to reconsider whether the orthodox approaches to marketing can be effective for all services (Zeithaml et al, 1985). This seems a reasonable assumption as marketing a hotel, 'where benefits are immediate', requires a different approach from marketing financial advice, where the benefit evolves over the longer term (Zeithaml, et al, 1985:40).

It was found that consultants and industry participants actively advocate asking for referrals in the belief that a form of asking will induce referrals. Commercial enterprises working in the field argue that they can build '*a flow of referrals from your new clients*' by inviting advisors to ask clients to describe the '*ideal prospect*' and then by '*who do you know who fits this description*' (Hanson, 2012). Others extend asking to the written form and assume that by adding carefully crafted wording to

outgoing documentation will stimulate referrals. An example was found in an online commercial publication:

‘One of the ways in which I wish to get rewarded is by referrals to other potential clients from my satisfied clients. If I am doing a good job for you and have earned the right to provide my professional expertise and service to others you know, then I would appreciate an introduction to them’  
(Vidler, 2012).

However the advisors who took part in this study are less certain that written forms of marketing are effective as one put it, *‘I can tell you what doesn’t work...referral cards!’* (A12i). On the other hand, clients who were interviewed reported that they utilised both word-of-mouth and written media in their selection process: *‘For example when making our wills we looked in the village magazine, asked friends at church, and used local networking to find an appropriate service’* (C6i) and *‘Spoke to people we know in the road who have had it done [having new kitchen fitted]’* (C6i). To some extent this opens up the prospect that recommendations may also be stimulated by nonverbal sources and are sought from areas that are deemed reliable like the *‘village magazine’* (C6i). However, sourcing a will provider arguably carries less risk and is less problematic than finding a financial practitioner. These findings garner support from Hung et al (2008:71), who found that referrals are the ‘exclusive’ source of new clients for smaller firms and the ‘primary source’ for all firms (Hung et al 2008:71).

It was established that advisors are not generally engaged in any meaningful marketing and instead rely on referrals to generate new clients. This is consistent with the findings from earlier studies connected with personal selling, such as that by Zeithaml et al (1985). During the interviews, advisors were asked how they generated referrals. This yielded a number of interesting replies, chief among them is the notion that advisors believe they can influence clients to become ambassadors, who will consciously seek out new clients, followed closely by a belief that excellent service will stimulate clients to refer. These ideas were explored during the

interviews, since, patently advisors believe that they influence existing clients to refer, no evidence was found to support the notion of 'customer-initiated referrals', whereby consumers are willing to become 'unpaid' advisor 'advocates' (Buttle, 1998:245). Indeed, it was found that clients were unwilling to countenance being any part of any marketing process as *'it's not up to me to find work for my advisors...they are paid to do a job of work'* (C11i). Although academics have argued that the propensity to refer is improved when the quality of the relationship between a 'salesperson' and 'customer' is better than satisfactory (Buttle, 1998; Johnson et al, 2003) it is unclear whether lessons from selling are transferable to an advisory process (Boles et al, 1997). In the current research, no correlation was established between the advisor-client relationship and referral generation, since clients are not instigators of the referral process.

This thesis did not identify any advisor currently using a referral programme, which was a surprise given the proliferation of offerings on the internet and their promotion by consultancy services. Scholars were found to be sceptical that operational referral programs are effective (Zeithaml et al, 1985) and, while others argue that retention may be enhanced through effective communication, detecting academic support for a connection with referrals is problematic (Sharma & Paterson,1999). When asked directly about referral programs, advisors seemed unimpressed, One made it clear that he had little faith in *'lead generation schemes as the database they use is rarely kept up to date'* (A17i), while another simply said *'a friend bought one and it failed'* (A6i). The collective view from advisors about referral programmes among advisors can best be summarised by the following comment:

'I made a conscious decision not to use a referral program....it's a little like recruitment consultants...I don't think any of these firms really care what they give you as long as they get paid for it' (A9i).

### 8.5.1 'I am no good at referrals...'

It appears that advisors view asking for referrals to be a necessary part of their armoury, but that it is not for the faint hearted in that it is associated with the tactics of a pushy salesman. For example when an advisor was invited to say whether she asked for referrals, she hesitated before answering '*No...I know I should...perhaps in the future I might*' (A2i), echoed by another who simply said '*I know I should but I don't*' (A12i). The sense was that practitioners were impressed by advisors who did ask, but that somehow could not bring themselves to begin doing so. The perception that referrals flow from asking was also reinforced by two more advisors who said '*I am no good at referrals...I guess because I don't like asking*' (A3i) and '*I can't ask because I am shy*' (A7i). Shyness was often used by advisors to explain why they do not ask for referrals, whereas those that do ask for referrals are associated with a more outgoing personality.

A common theme across all advisors was an assumption that '*if you don't ask, you may not get*' (A13i) while another said: '*This is not a conscious thing and maybe I could get more referrals by asking clients*' (A9i).

During an interview with three advisors, who work for the same firm, they were asked who obtained the most referrals in the firm and to suggest the reasons behind the success. All three said that their boss was the most successful as '*he almost always asks*' (A4i). When asked for a more detailed explanation for his success they were less clear but they did say that he '*engenders an incredible degree of trust even with people he has only just met*' (A11i). In turn the three advisors were then invited to explain how the boss achieved this 'degree of trust' they said they '*don't know...it just happens*' (A4i). One of the advisors reflected that he could go through '*exactly the same process but would not get referral*' as he believes that it is the '*difference between people...I can enter a room and might end up talking to two people whereas [the boss] will talk with everyone*'. All three advisors agreed that '*we are more reserved*' (A5i).

It is fascinating that, despite following *'exactly the same process...'* all three advisors thought a different outcome is likely. Perhaps the reality is that they did not follow *'the same process...'* or know precisely what it was. More likely they do not have experience of asking because of their reluctance to ask. It is convenient to look to character traits to explain an unwillingness to engage with potential clients, but people in other walks are required to step outside their personal comfort zones.

These advisors also spoke of pressure being applied from line managers to source referrals. It would seem reasonable to assume that the assumptions circulating about new client capture have also influenced practice managers who, despite often lacking any personal experience of referral generation, are regularly found to be urging client facing staff to ask for referrals.

Advisors appear to accept that asking for referrals is ineffective. For example, when asked to explain why they do not ask for referrals one declared that he had *'no confidence in the result'* (A5i) and another was equally candid *'I don't think it is productive (to ask)'* (A1i). Yet, despite acknowledging that asking is ineffective, many advisors consciously believe that asking is something they should be doing. As one put it, *'it is not a conscious thing...if the opportunity arises... maybe I could get more referrals by asking'* (A17i). When asked why they felt asking was ineffective one advisor said that she did not believe a referral would occur unless it was to *'return a favour'* (A6i) and explained that she *'draws from the ideas of reciprocation found in the work of Robert Cialdini'* (A2i).

An aversion to asking for referrals was frequently expressed and is perhaps best represented by the response that *'I never ask for referrals...I would be very uncomfortable in doing so...I would feel like I am intruding'* (A3i). This quote of itself is paradoxical, as calls into question how the advisor is aware she will be uncomfortable unless she has experimented with asking. Yet, despite concerns over the efficacy of asking for referrals, it seems that advisors perceive that it should be

encouraged, possibly because the influence of sales training methods from yesteryear remain persuasive:

‘As people have always said you have to ask for referrals [laughs]... I guess it is a perception circulating in the industry...I have a different view on it ...but probably if you don’t ask... you may not get....I really don’t know’ (A9i).

This comment came from a very experienced IFA, who acknowledged that asking was uncomfortable for both him and his clients, and admitted he rarely asked for referrals even though he still he perceived that he should ask just in case he was successful. So embedded is the belief that, despite evidence to the contrary, he was still concerned that he may be missing opportunities unless he sought introductions.

Despite acknowledging that referrals happen following a request from a friend, one advisor believed that *‘I cause them to happen...but they only happen when the person being asked has in turn been asked for help by a friend. Therefore timing is crucial’* (A6i). It was fascinating to hear advisors say that they believe that they influence clients to refer by asking indirectly, as 70% of advisors surveyed for this research rarely or never ask for referrals. It is therefore unsurprising to find that advisors resort to other indirect tactics in order to *‘make it subliminally known that I am interested in referrals’* (A17i). It is not always clear how subliminal thought transmission was undertaken, although some advisors said that explaining that their practice obtained clients by referral would influence the client to refer. Perhaps acknowledging their own reluctance to ask for referrals, many advisors said that they sought to *‘ask without asking’* (A7i) and explained their approach by saying:

‘...we don’t ask but we make it known we are interested in referrals...we say... hopefully you will feel that you have got such a good service that you will want to refer us to your friends’ (A12i).

The sense was that advisors thought this was a method of asking in a roundabout way, which would avoid being rejected or destabilising the relationship with the client. It became clear during the interviews that many of the advisors thought asking was in some sense demeaning, but the most said that they did not ask because, for example they had *'tried asking and it had not worked and risked the relationship'* (A15i). An incontrovertible common theme in the interviews was that advisors felt uncomfortable with asking as one put it *'I am not comfortable with asking because of fear of rejection...very British aren't we'* (A10i).

In an effort to explain this contradictory behaviour, many advisors reported that they had worked for a life assurance company, before becoming an advisor, and still used ideas about client capture drawn from these past experiences. They explained that had been exposed to newer ideas during exchanges with other advisors when attending industry gatherings. Despite clear evidence that asking for referrals is ineffective and that, in the main, advisors do not do so, participants remain perplexed why they feel the desire to ask. For many, the stimulus was implanted during their formative years with life assurance companies *'like Crown Life...I was told that is what you are supposed to do...I have never quite been able to shake it off'* (A15i).

Despite these beliefs, no advisor was found who could provide an example of a referral emerging following a deliberate act to induce a client to refer. However, one was prepared to acknowledge that he does not *'ask [for referrals]...in fact I never ask...they do it (refer) unbidden'* (A11i). As it remains a mystery why the majority of advisors maintain that they influence clients to refer, that is the topic of the next section.



### 8.5.2. Referral misapprehension: 'puts me off to be fair...'

The discomfort advisors feel in asking for a referral is also reflected in the consumer data. Despite a recommendation being the favoured route for selection of an IFA for consumers (21 out of 30), it seems they are reluctant to provide an introduction to an IFA. Chapter 7 reported that 86% of consumers surveyed would not provide a referral unless they had been asked to do so by a friend or relative or colleague. The interview responses supports the findings of the consumer survey as it was found that both clients and DIY investors are equally uncomfortable with being asked to provide a referral. Many clients confirmed their reluctance to offer referrals by suggesting the practice is '*...not very nice... puts me off to be fair...might give them the name of someone I don't like* [laughs]' (C7i).

Discomfort with asking for referrals was also noticeable in other fields, a restaurateur remarking that he '*was uncomfortable with asking*' adding that, in his opinion '*it takes a while to build up relationships...they are precious and I don't want to disturb them*' (C9i). DIY consumers were more forthright, viewing the practice as potentially exposing a weakness, and raising the possibility that asking may be counterproductive, when they made it clear '*I would not introduce as they must be struggling if they have to ask me for an introduction*' (D3i). Similarly, another DIY consumer's answer to being asked for a name was:

'I would be surprised...I wouldn't react...I probably wouldn't respond...I probably wouldn't introduce him to somebody...because I wouldn't feel that was my role' (D7i).

Surprise was a word often used by consumers when they were asked how they would react to being asked for referral. As one medical professional put it: '*probably would be surprised... I don't ask you to send your wife in for a check-up...anyway it puts people in an awkward position...and if it turns out the advice is wrong that could*

*reflect upon me* (C14i). Another consumer was adamant that he: *'would never provide a name unless someone said to me...Oh, we are in a right muddle with our investments...do you know anyone that could help us?'*(C17i).

During interviews with clients, it became clear that asking for an introduction is often viewed with suspicion:

'If he was soliciting for business...I would be less inclined to say yea yea...I know somebody...I'd be more thinking what's going on here...he must be struggling...you know...you know what I mean...why aren't you doing well...if you're not doing well you must be crap...I'm not going to ...you know what I mean' (C10i).

A negative reaction to being asked for referrals was widespread amongst consumers, characterised by one who made clear his *'dislike of unsolicited requests'* (C3i). Another noted his discomfiture at being asked for an introduction by explaining *'I would help but I don't know anyone suitable and I wouldn't want to put someone in an embarrassing position'* (C10i). When consumers were asked if they have ever promoted a service without waiting to be asked, one reported that *'as I am adjusting for retirement and using a life coach, I am always telling everyone ...to get a life coach... [laughter]... have suggested that friends could use him without waiting to be asked as I am so impressed with his approach'*. However, when she was asked if she would consider being an advocate for her advisor, she said *'I don't think I could do the same for my advisor though... as it might be considered too intrusive'* (C6i).

The above comments confirm the difficulties advisors experience in soliciting referrals through asking. What follows is an exploration of the factors that advisors believe can influence client referrals, closely followed by a brief examination of why advisors believe they fail to attract referrals.

## 8.6. Misunderstandings: 'always being available makes clients happy'

The previous section has shown that, in the main, advisors do not regularly ask for referrals, however, they clearly perceive that clients will be encouraged to refer provided they are serviced in a professional manner. IFAs believe that that they influence referrals in a number of ways, including; being highly qualified, responding in a timely manner to information requests from clients, and providing excellent service. A possible explanation for these beliefs is that assumptions are a method of dealing with an uncertain future, because consumers cannot judge value until the advice manifests itself, allowing advisors to continue offering a service they have difficulty in defining. The perception is that independent advisors believe their service is somehow right or appropriate for all consumers, if only they understood the value in the service, yet justification for these beliefs is absent. To some extent, the rejection of marketing strategies and the reliance on referrals suggests that advisors believe that consumers will wish to utilise a service just because it exists. However, authors argue that marketing is necessary and dismiss the notion that just being available for business will attract consumers (Brentani & Ragot, 1996). The interview findings suggests that consumer's value advisors who are prepared to acknowledge consumer concerns, listen and demonstrate empathy. These qualities will be evidenced by the design and provision of a bespoke solution, given that consumers do not engage with advisors who present off-the-shelf solutions or fail '*to reach out*' (C20i).

Advisors undoubtedly have a clear belief that the quality of service they provide will influence their clients to refer. They perceive that the work they undertake on a day to day basis is correlated to referral propensity. Many agreed that '*being always available*' (A18i) was essential to the maintenance of good client relations, although no advisor was able to explain how availability connected with the propensity to refer. Advisors also appear to believe that by doing their job to a high standard will stimulate clients to become advocates on their behalf, and be prepared to instigate conversations about them. Many advisors expressed the belief that '*clients can be conditioned to pass on names*' (A1i) or by '*making them happy with us*' and

specifically by earning their gratitude for *'a client will be grateful if you deliver a solution to what they considered a problem that gave them sleepless nights'* (A8i). Others also reported a belief that existing clients will promote their service, as *'the clients, the big ones, will come when you can demonstrate professionalism'* (A19i). Asked to explain how professionalism could be demonstrated and how this would induce a referral he paused and said *'clients will tell their friends about excellent service'* (A19i). Evidence of this conviction was widespread, advisors reported the belief that:

'Clients refer because they are happy with the service' (A9i) and another remarking 'word of mouth; that's the only way we get new clients. Look after your clients and they will send their friends and colleagues to you...' (A20i).

The belief that providing a good service generates referrals was universal, but many advisors also mentioned that responding to client enquiries on a timely basis was likely to influence referrals: *'being always available is what makes clients happy'* (A18i). This belief was reinforced by another who said:

'The thing is I come from a working class background... as you can probably tell ...I did not have any rich connection...there was no money walking in the door to invest day one ...' (A12i).

He went on to report, proudly, that:

'we treat our clients with care and respect...last Sunday night...I replied to an email from a client at twenty to one in the morning...he was watching a late night movie ...he was amazed to get a reply five minutes later...right!' (A12i).

In a similar fashion, another advisor was clear that he also influenced referrals by responding quickly to client requests in the belief that:

'By responding quickly to client requests and not restricting working hours to 9 and 5...if I cannot return a call during the day, I will do so in the evening or

weekend. It makes the client feel they are special to get a call which is so obviously in my home time' (A8i).

To explore the soundness of these beliefs, consumers were asked what they expected in terms of response times. It was apparent that while they all expected an acknowledgement on the same day, the general feeling was that *'it depends...anything after 48 hours or the second ping would cause concern'* (C8i) and another said *'provided I know they are working on it [the response] a couple of days is fine with me'* (C17i). Since a third client also indicated that *'two days is fine with me'* (C13i) this seemed to be the consensus among the client interviewees.

#### 8.6.1 'Till the soil'

Industry participants, who are not-practitioners, suggest that sourcing new clients is straightforward, as ready-made, proven initiatives are available online. They confirm that *'client referrals are indeed an exceptional source and there are strategies you can implement to maximize these'* (Caneva, 2014). This statement was made by a consultant to an advisor network during a discussion originating on the LinkedIn website of the Institute of Financial Planning. The aim appears to be to reinforce the belief that strategies advocated by online referral companies offer solutions for new client acquisition. Comparable statements are ubiquitous, and are often found to originate from the life assurance industry where many of today's IFAs started their careers in financial services. The repetition of such support for what could be described as referral mythology may have had a hand in influencing generations of advisors into believing that life assurance and investment companies have a store of knowledge about client acquisition that should be listened to.

One explanation for the perpetuation of these beliefs may lie within the advocacy of consultants operating within the financial advice field, who promote the concept of a connection between client communication and referrals, as a means of marketing

services which are *'not expensive and can really pay you back'* (Davidson, 2014:28). This consultancy provider, who enjoys wide exposure within the financial planning community, argues that firms require a *'well structured...communications programme'*, which is likely to produce more referrals. Davidson is implying that, by purchasing such a programme, the buyer will be delivered of a proven way to *'till the soil'* and thereby generate referrals. The assumption that referrals can be solicited by forms of verbal dexterity and/or with appropriate sales training was tested with advisors. Many proclaimed that they had *'never had any sales training...or I should say none that was any good'* (A12i) and no advisor reported that a particular form of words had induced referrals.

Davidson (2014:28) continues by asserting that it is *'ideal... to be touching your best clients more than 12 times a year'*, though no data or referencing are offered in support of the claim. The reader is invited to take on trust that the assumptions are valid, presumably drawing from previous consultancy work. However, contact frequency was not found to be an issue among consumer participants, although a number did say they would react negatively, perhaps impacting the likelihood for positive word-of-mouth, if planned contact frequency was not respected. For example: *'I expect to sit down with them once a year and be informed when things need addressing'* (C7i). All the clients wanted to be kept informed indicating that they expected an acknowledgement of correspondence on the same day and preferably a full response within 48 hours *'unless the matter was complex'* (C15i).

While Davidson's (2014) prescriptions may have some validity and undoubtedly could be regarded as intuitively workable, they remain but notions until they have been successfully operationalised and peer reviewed. Nevertheless, despite this criticism, some advisors report that they find consultants helpful, in that they offer well-crafted, visually attractive, presentational toolkits, which can be effective by encouraging practitioners to re-evaluate their own *modus operandi*. Yet, by encouraging the transmission of strategies that are untested, and markedly short of empirical support, scepticism over the soundness of these messages is understandable. Doubts over the validity of untested assertions are accentuated by

the findings of the current research in so far as no evidence was found to support these claims. Despite the assertions that referrals are dependent on the quality or frequency of communications, it is more likely that they depend significantly instead on a request for information or advice from a friend, relative or colleague.

It remains unclear why practitioners make the connection with response times and referrals, given they appear to accept that stimulating clients to refer is ineffective. This was made emphasised when one advisor indicated, that on the one hand, *'delivering a good quality service and not over charging helps ...with referral generation'* (A15i) but, on the other hand, acknowledged that *'actively seeking (referrals) is still a bit of an art form...as the person we are looking to be introduced to hasn't asked to be introduced'* (A15i).

The research carried out for this thesis has collected data that clearly contradicts much of what has been written by practitioners, consultants and other industry participants. Industry journals, magazines and organisers of events targeted at advisors, perpetuate the notion that fund management or life assurance companies, professional bodies and consultancy providers understand advisor-client relationships. Yet, it is unlikely these organisations have any real understanding or experience of founding and owning a successful advisory practice. Consequently, advisors hear and read communications that appear intuitively helpful seemingly without questioning the methodology underpinning the messages. Some advisors have discovered for themselves that unproven strategies from the past are ineffective. For example:

'I can say what doesn't attract clients, the direct sales gimmick approach...I've been through that ringer many years ago, when I first joined the industry and was for a transactional business not relationship based' (A7i).

In addition to excellent service, practitioners believe that professional qualifications have an impact on the propensity to refer. It was noticeable that when advisor

participants responded to the question 'How do you influence referrals?' they described relationships with longstanding clients, many emphasising the value of their qualifications, since '*we are a Chartered Firm and viewed as professional*' (A1i), rather than attempting to explain how they influenced referrals. One advisor was very confident that clients valued her qualifications as

'I am certified, chartered, a fellow of the Personal Finance Society and the firm is also chartered. It puts the client's mind at rest that an independent body has set the standard for our advice. We talk to the clients about their past experiences and how and why it went wrong. We ask them what they want out of our relationship, how we can help them, and work towards building trust' (A7i).

However it is not clear who the 'independent body' is or why consumers would be influenced by the standards they set. It is assumed the 'independent body' is one of the professional bodies although what claim they have to independence is unclear as they are a provider of qualifications by examination, not an arbiter for standards of advice. Others practitioners seemed to be more concerned with trying to impress, for example by saying that

'We have never lost a client and we find this reassures clients about the quality of our service. We have found that professional qualifications are a very important factor in enhancing our credibility' (A16i).

Despite the belief circulating amongst advisors that qualifications are influential in determining advisor selection, a review of the consumer survey revealed that no respondent selected 'chartered advice' from the choices available. Correspondingly, during the interviews, no consumer or DIY investor mentioned qualifications as factor that had influenced referrals. Interestingly, although advisors believed that the level



of their professional qualification influenced referrals; consumers did not seem to be aware that any advisor can achieve a higher, than entry level, professional standard and that doing so is optional. This was confirmed when it was found that consumers were unable to distinguish between, a well-resourced, chartered financial planning practice and a sole-trading IFA holding the minimum qualification. Rather, they clearly expected that all advisors would be appropriately qualified, as one put it '*I would expect them (advisors) to be technically proficient*' (C8i). This finding seems to fit with the work of Howden and Pressey (2008:978), in a related field, who found that qualifications do not directly relate to 'competence' and that consumers were unaware of the different professional qualifications available to practitioners. Consumers were found to be more concerned with getting satisfactory answers and '*would rather focus on the service*' (C12i) since they felt they could judge an advisor's competence through in-depth questioning over a period of time. Another client reinforced the sense that evidence of satisfactory service, gained over time, was of value because '*once you have dealt with people once and they have done it right... you go back*' (C17i). Howden & Pressey (2008) seem to concur since, during research into buyer-seller relationships, they also found that buyers placed a reliance on past exchanges and knowledge gained over time.

The wide range of trading styles, locations, qualifications and experiences of the participants, added to the richness of the research findings. It was found that advisors operating in metropolitan areas appeared to have well-rehearsed, polished, responses to the interview questions, whereas those in rural areas offered responses that seemed less planned. It was also noted that those in rural areas appeared to focus more on relationship building, often emphasising the need to:

'deal with people you like and the chances are you are dealing with nice people...and nice people want to help their friends...so we do a good job for nice people and those nice people...because they *are nice people* [emphasis added]...want to make sure their friends and relations get looked after as well as they are being looked after so we get referrals to more nice people' (A14i).

In the main, consumers thought it was helpful to have a good working relationship with their advisor but they would not describe *'it as a friendship'* (C17i). However, not all consumers indicated that likeability was a concern for them, one remarking that *'it's just an added bonus if you like him'* (C3i).

Lastly, it was also noticeable that advisors who held entry-level qualifications, possibly to distract consumers from the perceived competitive advantages of dealing with an advisor holding higher qualifications, would insist that experience is a more important virtue since *'after 20 years I think I know what to do'* (A7i) a view that gained some support among consumers who said *'providing a professional service was more important'* (C17i).

As foreshadowed the next section will examine the factors that advisors and consumers believe to influence referrals.

#### 8.6.2 Misapprehensions: 'they don't want to give me problems...'

It was thought useful to explore what IFAs thought would influence referral generation and what they considered to be obstacles. When advisors were asked to consider why they were not obtaining sufficient referrals, it was a surprise to hear that they thought clients have a perception that they might not be able to cope with, or welcome, any increased workload. Typifying the responses was this statement:

*'perhaps my clients think they shouldn't refer as they know me and know I am busy [he is a sole trader]...I have service standards that I do adhere to...maybe they [clients] think they don't want to give me problems because they know I am too busy...'* (A17i).

When asked to explain how this perception could be overcome, another advisor suggested that the answer was:

‘Just appear successful...if you got a business with ten people in it, to the outside world it appears much more successful...and would generate more referrals’ (A16i).

This theme was also taken up by another advisor operating from a small firm who said that:

‘Having a bigger practice...the greater appearance of success...clients view the business as a success...more bodies in the office...really it is that simple...I will have my phone on honeymoon...God yes... I have no choice...this is just one of the problems of being small...God knows what’s going to happen when I am away...’ (A12i).

It was apparent that advisors operating well-established businesses appeared to anticipate that referrals would occur in the future yet, when asked to be specific about when and how referrals would arise, they become less clear and somewhat defensive. Perhaps the optimism of established firms is well placed, given the assertion by authors that the maturity of a business is thought to be of value to consumers, who are said to prefer firms with an established track record (Hung et al, 2008). While it might seem likely that established business would have exhausted networking opportunities, this was not found to be the case. Indeed, when it was put to advisors, that sourcing new work must be challenging, one working in an accountancy practice for 10 years, said *‘No I don’t see it that way... the partners are attracting new clients all the time’* (A16i). However, most advisory firms are not fortunate enough to have a ready supply of prospective clients stemming from tax enquiries and thus a referral remains crucial.

Despite a widely held belief that the size of the firm was an impediment to referrals, it was found that some advisors were unwilling to address the realities associated with

growing a business. Sole traders yearned for a partner to share the burdens of practice and smaller firms realised they needed to grow if they wanted to sell the firm at some point in the future. Yet, when asked why they had not recruited staff, they indicated that quality candidates were in short supply. One advisor explained that he had *'interviewed 60 people without making an appointment'* (A16i). Others explained that they investigated recruiting client-facing staff but envisaged they would be spending more time on management with the result that no overall benefit would accrue. This was a common assertion, and probably says more about the concerns of the IFAs than the quality of the candidates. Many advisory firms have suffered from poorly motivated and ineffective recruitment policies resulting in apocryphal stories circulating concerning the compliance and financial risks associated with recruiting. In response to the final interview question about the advisors' future plans, it was a surprise to hear many of the advisors taking a laissez-faire attitude to the prospect of achieving a trade sale as they often reported an intention to remain in post as the practice represented a *'lifestyle business'* (A13i).

It seems that advisors have a perception that the scale of a practice and appearing to be successful is material in influencing referrals, since *'having a partner would give me a different view on stuff and maybe clients would refer more'* (A8i). Coincidentally, perhaps reinforcing these beliefs, it was noted that many of the advisors owned expensive cars, possibly as a means of portraying success.

### 8.6.3 Rejection and rewards: 'A bottle of champagne doesn't work for me'

The survey data showed that 25 out of 30 consumers were unlikely to refer again if a previous referral was rejected by their IFA, a view that was reinforced during interviews. In response to the question 'Would you refer again, if your advisor declined to act?' many replied *'No... I would not refer again'* (C14i). This concern was explored further during interviews, when advisors were asked whether they accepted all referrals. It was found that 19 of 20 had a minimum fee or investment level for new clients. This was made clear by one advisor, who operates from a

village: *'We have a minimum investment amount of £100,000'* (A17i) and another London based advisor explained: *'Yes, £5 grand [fees] and half million quid [investable assets] ...I don't care how it is broken down...pensions, ISA whatever...reason I came up with that...is avoid people I don't want to deal with...'* (A15i).

Attracting suitable clients preoccupied all participants, but it was also found that they thought carefully about which client to ask (or influence) for a referral, since judgements are being made about the likelihood of being introduced to someone appropriate. For example one noted that he was unlikely to: *'Ask a lottery winner as in my experience they are likely to come from a non-professional background without the sort of network I am used to working in'* (A20i).

Arguably, the finding that some consumers have concerns in this field is of importance for advisors because it increases the possibility that by rejecting client referrals, advisors may be frustrating the prospect of future referrals. Perhaps advisors should consider cultivating joint ventures with firms who accept all referrals, or accept all referrals on a reduced service basis. If clients are gaining the impression, that advisors are only interested in a particular type of referral, advisors may unwittingly be hindering their prospects of referrals. Perhaps advisors should be more circumspect when giving the impression that they only act for clients with a specific set of needs.

Another surprise was the evidence of support for rewards found during the consumer survey. This theme was pursued during interviews and, despite the importance of referrals, it was established that few advisors had a standard approach for rewarding a referral provider. Many simply offered a *'token gesture usually a bottle of wine or flowers for a lady'* (A5i). Any reward was considered as a *'thank you'* (A12i) provided spontaneously and usually limited to *'bottle of bubbly'* (A19i). Others indicated that *'we really wanted to find a way to say thank you...and to ask if we can have more [referrals]...but we don't [ask]...we just send a bottle with note'* (A11i). This advisor

went on to say that on one occasion, the note had been detached and when the client telephoned him saying *'this is all very nice but what is it for'* he still did not feel comfortable asking for a further referral (A11i).

Others adopt a different approach such as:

'...we make it known that if they do refer us to someone, who does business, we'll pay them £50. We'd never say, for example, who can you introduce to me, but we might say... "introduce me to your dad", if it seemed likely that he'd benefit from seeing us for asset defence work and so on' (A17i).

Advisors were then asked if they had ever received a further referral following a gift, but none had. This finding appears to challenge earlier research that suggested introductions are indeed stimulated by rewards (Ryu & Feick, 2007:84). This may be because consumers do not view token gestures to be of value as one client reported *'I was initially concerned that I would be embarrassed but then I thought that perhaps my loyalty should be rewarded... in a modest way'* (C6i). Another said *'I don't refer for money... but a bottle of champagne does not work for me'* (C19i). It was noted that female survey respondents tended to be in the uncertain, 'not sure', category on this issue, and the sense gained during interviews was that women felt that by accepting a reward this might alter the relationship with their advisor and open up the prospect of confrontation over fees. While the survey data was collected from a small sample and is not necessarily representative, the findings do appear to garner support from the interview results, indicating that a more nuanced approach to rewards might yield better outcomes.

It does seem odd that advisors choose not to reward clients more meaningfully, given the value and importance they place on referrals. It is possible, however, that advisors do not wish to be viewed as extravagant or cause embarrassment. I recall sending a bottle of champagne to a teetotal client which temporarily impaired our relationship.

One finding, both during the interviews and when reviewing practitioner journals and magazines, was the discovery that advisors have difficulty in explaining what they do. As this finding may have an implications for referral generation, it is discussed in the next section

#### 8.6.4. Bafflegab and windtalking

Windtalking is a neologism, coined for this thesis. It is derived from 'Windtalkers' a film in which the Navajo language, itself notoriously difficult to learn or to understand, was further complicated by a code so that even native speakers would be confused by it. The concept of using a language only comprehensible to insiders, often codified to make it impenetrable even within practice, appears analogous for the advisor fraternity.

It was noted during interviews, particularly with advisors from urban areas and those holding financial planning qualifications, that words were being employed to describe advisor services that seemed empty or designed to imply a higher level of understanding of practice issues than their peers possessed. This was exemplified when, in a single, short, article, Martin (2014:24) describes his approach to financial planning as '*proper*,' '*lifestyle*,' '*holistic*' and '*making a real difference*' while his earlier experiences were '*product-focused*' until he became an '*ambassador for pure financial planning*' as he wanted to work in an '*environment where clients...came first*'. It is difficult to foresee what prospective clients would make of these descriptions as it seems likely that they were crafted to impress a different audience.

This wordplay seems to connect with the concept of language games originated by Ludwig Wittgenstein (1953). His principal argument was that words gained meaning as a result of their appropriate use in the correct social context although it does not

explain why words would be used that are unexplainable. One possible explanation for this behavior, is that practitioners are aware, yet do not wish to disclose, that they do not understand what consumers value, or how they should explain their usefulness. They therefore resort to ambiguity in order to manage the uncertainty (Astley & Zammuto, 1992).

The foregoing connects with the fundamental concerns of advisors who find difficulty in presenting a coherent explanation to justify why consumers should pay retaining fees or annual fees, or both, for the services they receive. For example, when writing in *New Model Advisor*, Glassey, Robertson and Rogers (2014:16) share the same, arguably, imprecise language, when they seek to describe what they do as ‘adding value’, while Thomas (2014) asserts that ‘clients value fee-based financial planning with cashflow management’. Consumers must be left wondering what ‘value’ is added in the absence of quantifiable explanations. As so many advisors described what they do as ‘*adding value*’ during the interviews, they were asked what they thought was meant by this expression. One admitted: ‘*I have no idea...it sounds like something a political spin doctor would say*’ (A15i). In light of these findings, advisors were then asked to explain how they described their service to prospective clients. During a particularly long and introspective interview, with a very experienced advisor, he struggled to explain how he went about introducing himself at a dinner party and admitted that:

‘I get stuck for words. I thought it was reasonably straightforward what I told them...you know...but it isn’t... quite clearly... but how have I got it so wrong...I kind of don’t know...trying to work it ...obviously I can’t tell myself...I don’t know...needs a completely different set of words. What are those words?’ (A17i).

Another advisor likewise outlined the difficulty he found in framing a description of his services, so decided to ask his clients to explain what they thought he did for them.



'I did ask my clients ...if you [the client] were telling someone what I did for you what would you say? And there was a resounding difficulty in answering the question. I thought they would know...we have discussed it blah, blah, blah...but they can't. What's worrying that if they can't tell me what I am doing for them...how on earth can they tell someone else!' (A12i).

One advisor suggested a solution as he saw himself *'as a life coach really...one client found a new woman and wanted to talk through emotional and financial implications of leaving as he knows I have been married twice'* (A7i). One fascinating observation came from a retiring professional who was about to redecorate her house. She noted that *'when you want a new kitchen... you know you have to get someone to do it'* however she then continued *'but you don't know you need an advisor...and quite a lot of people don't know they need an independent financial advisor'* (C6i). This connects with the problems advisors have found in communicating what they do and in turn is likely to impact referral generation.

The difficulties that advisors describe, in presenting and explaining their service, is likely to impact the prospect for referrals as clients will be left wondering the extent of the service and advisors will be concerned about justifying their fees.

#### 8.6.5 'They need to be convinced'

In the search for a definition for referrals, an interesting sub plot emerged. It was found that, despite denigrating those who sell products while appreciating that 'persuasion' is usually associated with a sales process (Johlke, 2006:319), advisors feel it is necessary to persuade consumers to buy their service. This reveals a second paradox, in that as advisors, wish to be perceived as dispensing advice, describe themselves as advisors and undoubtedly provide advice, and yet are

actively involved in a sales process, as *'sales skills need to be taught... there will be a void when we go...it is still a face to face industry. So many try and fail...nobody buys FS [financial services]...they need to be convinced'* (A14i). The differences between advice and selling have been briefly explored in Chapter 4. While the topic was discussed during the interviews, it was felt to be too complex to be addressed tangentially and was thus considered to be outside the scope of this thesis. However, during the superficial exploration, it was found that the DIY investors are strongly against being persuaded to buy and would consciously seek out advice without a sales dimension. Some clients, on the other hand, understood that during the advisory process, they have been subject to persuasion, although a minority felt it was likely to be beneficial in nature rather than based on manipulative behaviour. Rather more clients took a different view, expressing their dismay at attempts to persuade and questioning the motive behind sales tactics: *'The advisor that came to see us seemed to have his own agenda and did not really listen or advise us on what we asked him to'* (C12i).

#### 8.6.6 Conclusion

Thus it seems that practitioners face something of a dilemma given that, on the one hand, they wish to be portrayed as professionals providing financial advice, yet on the other, they still feel the need to sell their services because consumers will not readily buy without persuasion. This leaves a fundamental problem unresolved, since consumers indicate they would prefer to receive advice. This dichotomy accentuates the issues advisors face in positioning their service and emphasises the need for individual advisors to distinguish themselves from their peers. It was found that advisors have adopted a language that is confusing for consumers and fellow practitioners alike, which may add to difficulties they are finding in describing their services. One possibility is that, in so far as practitioners are trained solely in technical subjects, they learn to speak the language of the technician, which can develop over time into a form of language barrier. It is argued that excessively complex language leads consumers to ask friends for advice, instead of advisors, resulting in consumers making inappropriate purchases or none at all (Lewis, 2014).

## 8.7. The referral enigma: 'I don't really keep score'

All advisors reported that they attracted numerous referrals, often so many, that they could not recall the exact numbers. However, despite confirming the number of referrals they obtained in the questionnaire survey, when advisors were asked in the interviews to clarify the number of referrals, a different picture emerged. It became clear that advisors did not maintain records of referral numbers and that the numbers of referrals reported in the survey were likely to be estimates. During probing for more information, the following comments provide support for the proposition that advisors were using estimations to gauge referral numbers: '*Don't know. Sad but I don't know*' (A10i); '*I really don't keep score, but at a rough approximation-about six*' (A11i) '*one every couple of months, so about five or six*' (A2i); and '*No idea to be honest...more than enough to keep us busy*' (A19i).

It thus became apparent that no participant was maintaining records of referral numbers, yet all advisors were prepared to estimate the number of new clients from referrals. It was also established that, having received a referral, advisors did not keep records of the scale, duration, value, background of referrals, or the likelihood of the client referring again. This was very confusing since if advisors are unable to explain the numbers of referrals they obtained over the course of a year, the question arises of how are they able to accurately indicate the percentage of new business that flows from referrals. One advisor did suggest that the numbers of referrals he obtained was less important to him as he '*knew the source*' of his referrals (A10i).

One can only speculate at how it is possible for a firm with many hundreds of clients, a dynamic client base of joiners and leavers, developed over 30 years (as in the case above) to recall the source of all referrals to any level of accuracy without a database.

It is clear that the statements from advisors, confirming they do not maintain records of referral numbers, are at odds with the perception of an analytical business participant carefully recording relevant business information. This seems particularly incongruous when advisors seek to portray themselves as skilled in data analysis. This leads to speculation that either advisors do not obtain the stated number of referrals or that they accept referrals as commonplace, but more likely advisors have realised they cannot influence referrals and see little point in producing, what they perceive as pointless management information.

Thus, after assessing the scale of the practices and noting the declared absence of a referral strategy, it seems unlikely that the number of referrals being claimed are reliable estimations of referral numbers. Conditioning this thinking was concern over the veracity of advisor responses who asserted that they had obtained numerous referrals yet bemoaned the lack of new clients. Accordingly, in the absence of a monitoring system for referrals, since referrers may be regarded as supporters of a firm, advisors would experience difficulty in adopting Reichheld's (2003:53) ideas to distinguish between 'promoters' and 'detractors'.

Attention now shifts to consider the perception advisors have of DIY consumers. It was reasoned that if advisors know more of why consumers chose to self-manage that this knowledge may allow advisor to attune their propositions to attract more clients and stimulate referrals.

#### 8.7.1. Advisor-client relationships: 'I don't want to be told what to do'

Advisors and consumers appear to view advice from differing perspectives. It was found that advisors may have misconstrued why consumers choose to self-manage as *'arrogance...they think they know what they are doing... and probably concerned about charges'* (A5i), which was attributed to a *'misconception that is low cost to DIY'* (A9i). Consumers, on the other hand, seemed to question the quality of advice as

they elect to self-manage *'as I can't be any worse than anyone else...that's my theory'* (D7i). As another put it, *'I do it myself as I don't have enough money to justify the fees [of an IFA]'* (D5i).

Identifying with the perception clients have of advisors, it was noted that those DIY consumers who had previously dealt with a financial advisor, expressed a wariness in their attitude toward advisors, viewing them more as salespeople than advisors. They unanimously thought that advice is only really worthwhile for *'larger sums...above £10,000'* (C3i). Even in the case of sizable investments, they queried how they can *'get value after fees are deducted'* (C3i). This finding garners support other researchers who found that consumers perceive advisors really only want to deal with wealthy people (NMG, 2014). It was found that advisors have misunderstood what motivates DIY investors, who seem to value their autonomy, since they exhibited a tendency to be dismissive of consumers who view the world differently to them. This fits with the finding of academics researching in the field of professional business advice, who also identified levels of advisor-client 'disparity' by observing that advisors may be influenced by a preoccupation with technical excellence rather than understanding client needs (Dyer & Ross, 2007:130).

Advisors' charges seems to be an issue for many DIY investors, one participant putting it this way: *'I probably should use an advisor but then [pause] would the costs of an advisor offset against the extra I would make?'* (D5i). Some clients also seem uncertain of the value of advice, by explaining that *'it's difficult for me to know what I should expect but it does seem a lot of money for what they do'* (C5i). A number of advisors appear conscious of the concerns of consumers and acknowledge that

*'...sometimes there is a tendency, because it is good for business, to almost shoehorn a client into an ongoing advice relationship they don't necessarily want. For many clients, there is a lot of value in a stable relationship, but that is not right for other people, who will want to dip in and out...an ongoing*

service may not always be appropriate. For example, you don't sign up for ongoing reviews of legal advice when you go to a lawyer' (Thomas, 2014).

Other advisors said they would expect some consumers to self-manage their investments, admitting that *'if we can't add value they can buy more cheaply by going to one of the execution-only platforms (A17i)*, but failed to explain what is meant by adding value and importantly how any extra value can be measured. Perhaps it is understandable that consumers are left to draw their own conclusions, therefore choose to *'only use an advisor for a large amounts'* (D13i), and are confused when advisors speak of improving *'customer outcomes'* while acknowledging that finding *'a solution...is very difficult...it is in the perception of the customer'* Howells (2014:30).

Despite the attempts at professionalising financial advice and more stringent regulation recently introduced, there remain concerns over the trustworthiness of advisors. As one self-investor put it:

'I am sure in the financial world there are many honourable people in finance. Don't get me wrong...but there are still...you put people and money together and... you know... not everyone can rise above that basic instinct...' (D9i).

While another reported *'it's just the level of uncertainty I don't like, I have no idea what the performance will be and I can't afford to gamble'* (C4i). To some extent this concern fits with the idea of providing service guarantees advocated by Bitner (1995). However, IFAs are not permitted to provide promises about investment returns and guarantee has been expunged from their lexicon, although a number of IFAs did say they provided assurances over contact frequency, fees and *'we tell clients we will be available when they need us'* (A13i).

It became clear that many consumers were unaware that advisors are now paid by fees. For instance:

'I didn't know commission is banned. I didn't know that...what I would say...some of the running costs of some of these investments...where they take it off the top...skimming of the top all the time that is...you know...off-putting' (D5i).

Abolishing commission was thought to be a vital element in re-establishing trust in the sector, yet many consumers seem unaware that advice is now fee-based and of the other changes brought about by RDR. This must be concern for policymakers and those interested in promoting advice. Perhaps of greater concern to advisors are the responses to the question 'Do you find advisors are seeking to sell you something rather than provide you with advice? Consumers unhesitatingly said, for example '*Definitely! I think that is definitely the case*' (D7i). However, when asked at what point advice becomes selling, they were less clear. One participant thought that selling was evident when it is clear that the advisor presented the same investment solution to all clients, whereas she would prefer:

'Someone intelligent who can answer our questions who is prepared to talk things through with us'. For example, advisors who don't talk with us, who don't have any imagination, who say this is what I do and always do it the same way, aren't as valuable to us as someone to is willing to reach out to me' (C6i).

Consumers were united in their desire to be listened to and not to be talked at, asserting for instance that they wanted to:

'Use an advisor who is likely to say... I see what you mean. They demonstrate that they have listened to us and adjust the proposal to suit our needs not theirs. I like it when they ask if we have thought about this or that...so that we

can understand the issues...that is... they reach out and meet you rather than be an expert in their field' (C20i).

Clients seem to agree that advisors who propose off-the-shelf solutions are less likely to listen and '*they need to remember it's my money... not there's*' (C17i). A business owner explained that, when she was selecting a financial advisor:

'We looked up several that were on the money programme or similar and a couple of local firms. We thought [XYZ] seemed very professional. He seemed far more interested in getting me to move my works pension, which I had not even considered. He did not get my buy in and seemed unaware of the fact. After he left, my husband and I felt he was over familiar and only interested in my pension pot, his brief was primarily to discuss my husband's pension' (C12i).

Being listened to and empowered to make their own decisions were common themes during the client interviews. The following quotation probably best summarises the attitude of clients:

'I am not the cleverest guy in the world or the best looking...but I am prepared to listen to everyone as they all have a point of view and I am prepared to bend a bit until they are proven wrong... so I guess I value an advisor who can meet me halfway. I don't want to be told what to do. I want to agree how we proceed and have a say in it' (C15i).

Despite this evidence, it is clear that some advisors do seek to impose a working relationship on their clients by '*encouraging contact as we always continually tell them we wish to have a lifelong relationship not a transactional basis*' (A16i), which is an assertive approach that appears disregard consumer sentiments. However,



advisors say *'We listen to them, offer support when things go against the norm'* (A7i), although it is a concern that they believe there is a *'norm'*, since that indicates a farsightedness beyond their gift. Some consumers appear to have been persuaded that their advisor has specialist knowledge of investment markets that can be used to a client's advantage. For instance: *'If they are switched on they could put 100% into aggressive fund and then decide change to cash and take profits...they will know when to change it for you'* (C7i), a belief that is almost certainly without foundation.

Advisors believe that they know more of what their clients want and they are reluctant to ask clients what they really want. This has led them to design a way of operating, or more usually copy one, which they assume clients want. This is illustrated by the comments of Robertson (2014) who explains that:

'We have a well-defined financial planning and investment process. We like clients to be part of that...if they don't want to engage in that process they are not right for us'.

One possible reason why advisors seek to design a client proposition, without asking clients what they want, is because they are apprehensive that clients will have a different interpretation of what is of value to them which would in turn have revenue implications for advisors. The possible magnitude, of that impact to revenue, may be explained by the findings of a survey by the CII that almost exactly three-quarters of advisor income is based on a percentage of investment funds (Hutchinson, 2014). It cannot be discounted that financial advisors may, unwittingly, be countenancing the spectre of manipulation, as envisaged by Evetts (2003), when they adopt an insular approach to the design of their business model. This possibility epitomises the complexities associated with the marketing of 'credence goods' (Darby & Kent, 1973:68) and perhaps reinforces the concerns, over client vulnerability in this field expressed by Gilmore et al (2007).

Advisors seem to believe that they know what clients want based on assumptions developed through custom and practice and reinforced by the consultancy industry.

Yet it was found that advisors rarely if ever survey their clients to confirm the service is meeting client's expectations or say that they have experimented with alternative methods of delivering advice. As Buttercase (2014) clearly illustrates, writing in *New Model Advisor* about how he explains investment performance to clients: 'ideally, I do not want the client to look at performance at all for the first five years. They should forget about it and focus on their lifestyle goals'. This comment may be considered ill-judged but perhaps it demonstrates that some advisors think it would be preferable if consumers delegated decision making to those with more knowledge.

This is a surprising position to adopt as, in my experience the majority of advisors have less capital and fewer assets than the clients they wish to act for. This leads to concerns that advisors may not fully appreciate that consumers with higher levels of wealth require both advice and problem solving but also value skills of a non-cognitive nature, which cannot be found solely within an examination syllabus.

Industry participants argue that consumers do not understand that regulated advice is covered by the Financial Services Compensation Scheme and that it affords a level of protection not available to other forms of advice (Gazzard, 2014). In no other purchasing environment does the seller have to demonstrate to a regulator that the product they offer is suitable for the consumer, yet this important consumer protection is not understood and seldom published. Advice is commonly interpreted, as guidance or a recommendation, but, in regulatory terms, advice is 'a personal recommendation from a qualified individual given after due consideration of your personal circumstances and objectives' (FCA, 2014). The research by Gummesson (1981) does offer some guidance toward a definition of advice, since he seems clear that a professional relationship should not set out to be the prelude of sales activity. The confusion over where advice ends and selling begins adds to the difficulties that advisors experience in framing their services, and provides an opportunity for regulators and professional bodies to expound the virtues of regulated advice and encourage consumer understanding in this field.

### 8.7.2 Referral management: 'something radical'

Whatever advisors believe, consumers seem clear that they are not influenced to become advisor advocates by forms of persuasion, service standards, qualifications, likeability, response times or oral requests. They do say, however, that they have shared information with friends that they think will be found interesting. As one interviewee explained:

'My advisor had decorated his meeting room with numerous iconic black and white photographs, such as steeple jacks having lunch at the top of skyscraper and a second world war victory parade in New York. We spent the first 20 minutes or so discussing the images, and I got to understand him better and had an idea of his range of interests and knowledge. I told my friends it was worth going to see him just to see the pics!' (C17i).

Another, the owner of a hairdressing business, also said that something memorable inspires him to refer as his '*advisor always brings his dog to the meetings*' and that he finds it easy to obtain referrals by '*doing something radical with the cut or colour...so her friends will ask...where did you have your hair done*' (C8i). It seems that consumers will readily share with friend's perceptions drawn from tangible observations, unconnected with the advice process. This phenomenon affords advisors with the opportunity to stimulate interest with something noteworthy, since clients would '*rather have the time to walk my dog that's why I want someone else to take on the stress as I don't want it*' (C9i).

I recall being advised, early in my career, that in order to connect with an audience ideally a speaker should share some personal information and make an attempt at humour. Accordingly, I decided to disclose during my seminar presentations that I am the son of a Scottish bank manager and therefore likely (somewhat tongue in cheek) to adopt a cautious attitude concerning investment matters. I was aware that investors are thought to be more

concerned with loss than gain and envisaged clients might conjure up an image of prudence when connecting my parentage with money and banking. Although following Scottish involvement in the 2008 banking crisis, this perception may no longer hold! This disclosure seemed to appeal to clients as one said that she always told her friends I *'suited her because I was the son of Scottish bank manager and I was understandably cautious in my approach'* (Sarah). This was reinforced during the interviews when two personal clients mentioned that they had shared the same story with friends who had in turn become clients. It seems my background story had captured interest while providing a humorous connection which, could be shared as a casual yet reassuring comment. Perhaps my background had become a form of personal branding, which can be shared without embarrassment, providing clients with an opportunity to share news they found interesting which reflects well on themselves.

The idea behind a personal brand developed by revealing personal information connects with the findings from a study into the behaviour of insurance salespeople in the USA when it was found that it was disclosing personal information was 'extremely important' for a salesperson (Boles et al, 2000:149).

Advisors offered few reliable methods of client capture by referrals, but one practice manager from Yorkshire did suggest that:

'Another great way of getting referrals is pay people on time... Most of our suppliers become our clients... because we pay people immediately...right so if somebody does a job for us...it doesn't matter what it is...they get paid normally before they get back in the office if they give us the account details...we don't muck people around with money. Now, I have worked for people who string payment for ever...make people wait and piss'em about for money...If you're in the money business and you do that to people...why in their right mind, would anyone trust you with their money?' (A6i).

The client interviewees suggested that they largely utilised advice to avoid making ill-informed decisions. As one medical professional put it, a '*half informed doctor is dangerous*' (C12i). This finding seems to fit with the concepts of mutual dependency, partnering and 'relationship selling' presented by Jolson (1997:77). By contrast, the data from DIY consumers indicate that when advice is conflicted, it raises questions over adviser objectivity. This finding connects with the concerns raised by Hung et al (2008:71, who found that marketing via print media and television sets inappropriate 'expectations' for potential , as they appear to be 'selling advice'. It was noted that a number of clients seemed to have unjustified expectations of advisor competencies, as exemplified by one participant who said that he expects his adviser to '*alert me to investment opportunities using intelligence of market... trends*' (C17i). This comment, and others like it, suggests that clients expect advisors to foresee future market movements, possibly encouraged by the advisor. If so this can lead to conflict if the outcome did not meet expectations, given that advisors can only provide informed views and cannot see into the future. The survey data shows that referrals are offered following a request from a friend, colleague or relative, rather than being the result of spontaneous advocacy by clients. During interviews, however, advisors maintained that they did influence referral generation, but it became clear that they were unable to provide examples to defend the claim. One interesting finding was that consumers do not measure advisor performance, except in a cursory fashion: '*I know what the FTSE is doing...read the papers and know what interest rates are. My advisor doesn't provide a measure for me to look at*' (C6i). This perhaps explains the difficulties both parties find during the referral process.

### 8.7.3 Conclusion

Reflecting on the data in this section, it was puzzling that advisors thought they influenced referrals as they could not directly link a referral to their influence. Advisors spoke of discussions with existing clients but could not explain how those conversations had led to a referral. It was initially speculated that advisors did not

wish to acknowledge a lack of understanding or actual misunderstandings, about how referrals are generated and had sought refuge in commonly held explanations. It also seemed possible that they have unconsciously come to realise that they cannot influence referrals, but are unwilling to admit it. This reasoning was soon discounted, however, as many of the participants were very experienced and it seemed unlikely that they would be ill-informed. Nevertheless, this does not explain why only one advisor was prepared to acknowledge that referrals happen naturally. It is clear that a discrepancy exists between what the advisors say and what the data indicate. One reason for this apparently contradictory behaviour, which fits with the lack of management information about referral numbers, is that advisors do not concern themselves with exploring the antecedents of each referral; rather, they focus on the opportunity in front of them, as they may not have entirely grasped the complexity of the issue.

## 8.8 Origins of referrals

The central aim of this thesis has been to explore the antecedents of referrals in a theoretical and practical context and provide a practitioner influenced explanation of referrals as they are understood in the field of professional services. Although the process of referral generation does not have a conspicuous theoretical foundation academics have theorised that word-of-mouth (WOM) has a significant role to play in generating referrals (File, 1994; Helm, 2003; Reingen & Kernan, 1986) since it is thought to influence the behaviour of the recipient (Sweeney, 2008). While the present study agrees that WOM does play a role in referral generation, the extent of the influence is debatable since the data showing evidence that it provided direction was inconclusive. Arguably, the impact of WOM is stronger when viewed from the perspective of the receiver, for whom it can provide reassurance when the outcome of a service is difficult to predict (Sweeney, 2008). The role that WOM can play in new business generation, has been widely discussed, principally in a business-to-business context (Devlin, 1997; File et al, 1994; Foster & Cadogan, 2000; Johlke, 2006; Johnson et al, 1997; Weitz & Bradford, 1999) whereas this research is focused

upon consumer-professional practice relationships, where literature is in short supply.

Academics and industry participants have argued that service standards have a role to play in referral generation, but this thesis has found that any impact is likely to be limited to encouraging positive word-of-mouth (Buttle, 1998; Johnson, et al, 2003). It follows that a clearer conceptualisation of referrals, in the context of regulated financial advice, is needed. It has been argued that authors have tended to conflate and confuse WOM and recommendations with referrals (Buttle, 1998; Helm, 2003; Kumar et al, 2010). This research favours a different approach and has striven to make a clear conceptual distinction between referrals, recommendations, and WOM. In support of this argument, data were collected from consumers who became clients as a result of a referral who explained how the referral arose and what prompted them to accept the recommendation. In turn, clients who had provided a referral were asked to describe the circumstances that led them to do so. It was during these discussions that the referral process was laid bare. The reported comments that follow data are drawn from the interviews with six personal clients. To preserve their anonymity, pseudonyms have been used.

The argument presented, maintains that WOM is the weakest of the concepts usually beginning with a conversation, that at some point turns to money or financial matters, when a request or comment such as *'I have got myself in a muddle over...'* (John) is uttered. In turn, this provides an opportunity for the client to express positive, or negative, word-of-mouth, which may be as simple as *'I have someone that does that for me'* (Simon) inviting John (the prospect) to ask *'Do you find them helpful'*. This question provides the client with a further opportunity to offer positive word mouth, in effect to deliver a recommendation. The recommendation may take the following form *'I find they take time to explain complex issues...and they seem to look after people like us'* (Sarah) or clients may be more fulsome and say *'they have a good investment track record'* (Simon). The requester may now decide to ask for the name of the firm *'Do you think your chap would talk to me as it is not a lot of money?'* (Tim) allowing the client to offer to help by asking *'Shall I ask if they (the*

*practice) are looking for new clients?* (John). There is little value in seeking to conceptualise discussions between a client and prospective client as a referral, when the advisor has no knowledge or control of the discourse and no commercial activity has taken place. The key point being that a distinction should be made between the culmination of the referral process and that which is just hot air. The key proposal being that the term referral is only used if new client capture is the outcome.

To augment these findings a brief, follow-up telephone interview of ten consumers of advice, chosen from those deemed most cooperative during earlier interviews, sought to uncover additional data of value that could be used to corroborate or challenge the findings from the personal client interviews. To probe for greater insight those unfettered consumers were asked to explain why they choose to refer. To ensure consistency all participants were allotted the same time span and all were invited to answer the same two questions: (1) Please explain what prompted you to provide a referral? and (2) Why did you recommend your advisor?

It was noted that the responses were of a different, richer nature and characterised by the actual events that led to referral generation. On reflection, it seemed that the answers could be differentiated between those relating to the background to referral generation versus those describing the prelude to a recommendation. The former utilises linguistic connections (Ryan & Bernard, 2003), linking cause to effect (for example, '*I referred because*'), whereas the latter makes unsupported statements. On closer inspection, since the data appeared to be polarised between referrals instigated by a third party (defined as 'external influence') and other influences, it seemed justifiable to introduce two new themes to categorise the referral data. The responses are set out and paraphrased in Table 8.3.



Table 8.3. Summary of interview data from 10 clients-(client code in brackets)

<b>External influence</b>	<b>Other influences</b>
<b>A friend asked for my advice and I referred him (C16i)</b>	My son needed financial guidance (C11i)
<b>My best friend is getting divorced and asked for help (C9i)</b>	I introduced her to someone I respect as I value the advice (C6i)
<b>I mentioned my IFA to my neighbour when he was talking about money (C12i)</b>	The presentation made sense (C17i)
<b>My Dad was complaining about death duties so I introduced him (C19i)</b>	The investment process worked for me (C8i)
<b>My co directors asked for advice and I told them my IFA made sense (C2i)</b>	They are clear on costs and I understood the explanations (C15i)

The responses from Table 8.3 suggest that the influences upon clients to refer are thought to be largely external, that is clients refer following discourse with a prospective client, since little evidence of advisors influencing referrals could be found. It seems that the role that advisors play is to ensure that clients are encouraged to offer positive word-of-mouth, when the opportunity presents itself, by demonstrating what may be characterised as professional concern, a construct this thesis defines as encapsulating levels of care and attention beyond that expected. This description is shaped from the following responses in interviews with personal clients: *'Only one who speaks in terms I understand* (Neil), *'Prepared to take time to explain complex issues'* (Sarah) and *'Never reluctant to explain things enough times'* (Tim). This elusive quality may help explain the reason some advisors obtain more referrals than others as, arguably, a key ingredient in the embryonic referral process is the presence of professional concern. Without the presence of this critical

component, clients may chose not to provide positive WOM thus the weakest link in the value chain is broken. It also seems reasonable to assume that the reasons for retention and the willingness to offer positive WOM are connected, since clients did not articulate meaningful differences between the two. In conclusion, advisors who demonstrate professional concern are more likely to enjoy client retention and experience positive WOM.

During the consumer interviews, many participants used phrases such as '*peace of mind*' (C13i; C19i) when describing what they valued from their advisor. To illustrate the point, clients would say that they were '*now content that my financial plan works*' (Sarah) or explain that '*they have a scientific approach to money management*' (Tim). The sense was that '*peace of mind*' is an impression cultivated by reassurance of advisor competency developed from a belief that the financial affairs of the client are being handled properly. This interpretation flows from the way clients describe their relationship as being founded on collaboration rather than solely in the hands of the advisor. As one dental surgeon put it, the relationships ends when '*he stops listening to me and I stop listening to him*' (C18i).

When interpreting the data, it seems clear that the referral process is instigated when a prospective client invites an existing client for a recommendation, usually during a discussion related to a financial matter. It is thought that clients do not initiate the referral process rather they wait until they are asked to provide an opinion. As can be seen in following quotations, the overriding sense is that clients respond to requests from their network for assistance. The particular parts of the quotations supporting this contention are underlined.

'I discuss money every now and again...it keeps me sober...and if my memory serves Sarah asked me what I did with my own money...I then described the service I receive and she asked me for their contact details...I

didn't ask her what happened but the IFA told me she had become a client' (C19i).

'I feel uncomfortable about recommending...if something is really good I will be telling everyone... here is one...don't go the sweet shop as their stuff is stale!...wouldn't tell [recommend my advisors] unless people asked me' (C9i)

'As they haven't asked me...I am likely to make an introduction they may not particularly want' (C13i).

This finding is supported by other authors who also found that WOM is provoked by the receivers 'need for information' (File et al, 1994; Mangold et al, 1999). In essence, the start of the referral process may be conceptualised as being reliant on positive WOM, which develops into an endorsement or recommendation before forming an embryonic referral.

In light of the above, this thesis diverges significantly from the limited number of previous definitions, which have tended to assume that positive WOM of itself is a referral (Helm, 2003; Kumar et al, 2010; Ryu & Feick, 2007), reinforcing a common misunderstanding that it is the client who instigates the discourse and misapprehending that ultimately it is the prospect who makes the decision whether to proceed to client status. Other academics take a different approach by arguing that referrals should be defined as being when clients influence and 'advise' others to become clients (Verhoef et al, 2002). That is at variance with the findings of this thesis, which argues that a referral is not completed when advice is provided. Lastly, although Verhoef et al (2002) describe a referral as a transfer of advice, a completed referral, within regulated advice, inevitably, requires a number of meetings, the production of a written report, and a signed agreement before a referral can said to be satisfied. In other words, a referral requires entering into a commercial

undertaking, and the delivery, acceptance and payment for services, where progression is dependent on the actions of the recipient of positive WOM.

Championing the position adopted by this thesis, Sweeney et al (2008) have also argued that WOM is wholly reliant on the receiver taking action. They have also argued that the content and delivery of WOM are influential in stimulating receiver action. However; while not expressly exploring for a connection between the message and action, this thesis did not encounter any participant who indicated motivational messages had influenced their behaviour. It is noted that of the majority of participants in the study by Sweeney et al (2008) choose to describe critical incidents that occurred in non-professional services. Understandably, this invites the possibility, as the authors concede, that WOM is less common in professional services, a proposition that fits with the findings of this thesis.

Correspondingly, questions are raised over the validity of arguments that champion the influence of WOM in decision making (Buttle, 1998). It seems possible that its effect may be directional in nature and less influential than authors believe as consumers are likely to defer decision making until a proposition is presented. No evidence was found to support the idea of 'maven' behaviour or that receipt of this type of WOM is likely to stimulate clients to act (Buttle, 1998:249). However, the evidence was somewhat contradictory. As one participant said, *'I think I would make my mind up after meeting with the service provider although a recommendation is a great start'* (C11i). That view was supported by another consumer who suggested that *'the opinion of someone might lead to me meeting a service provider, but it would be the personal experience of meeting them that would lead me to actually use them'* (C15i). Another was more fulsome and explained that:

'A recommendation would get a service provider a hearing but I would then want to see how knowledgeable the provider was and whether I think that I could work with them. Recently my husband and I met with a Financial Advisor from a very well-known online company. The advisor did not impress,

and seemed to have a different agenda from the one he was invited to discuss. His listening skills were poor and he seemed completely unaware that I had turned off and was answering e-mails 40 minutes into the meeting' (C16i).

While the majority of consumers agreed that they would defer a purchase decision until after meeting a service provider, one did express a different view:

'Probably friends and family was main influence. I guess if I'd met them and had taken a dislike to them, I may have not pursued it, but as that wasn't the case, and they both seemed to have necessary knowledge etcetera, I was happy to continue with them. It would probably have taken quite a negative experience to make me consider not going with them' (C4i).

On the surface, it seemed that, for this consumer, likeability was an important ingredient in the decision process. However, on further exploration, 'dislike' was explained to be an expectation of satisfactory service, based on a perception gleaned from face-to-face exchange, influenced by a recommendation. It was observed that consumers familiar with managing and making business decisions, were less inclined to rely on a recommendation than those with limited personal authority. It is speculated that the former may be more discerning in their choice of provider, perhaps as a result of receiving recommendations of indifferent quality in the past. Correspondingly, consumers without a history or experience of decision making, may be forced to rely on recommendations. This opens up the possibility that a recommendation from someone in authority, used to making buying or business decisions, is more likely to be valued and relied upon.

To sum up this section, the firm may be contacted by either client or requester, at which point the recommendation has borne fruit and is an embryonic referral. Provided the firm and the prospect are able to agree terms, three steps are needed to determine the referral; (1) positive WOM leads to (2) a recommendation, (3) the

offer or request for contact details, and (4) the referral is crystallised when a client agreement is signed so that a fee may be charged.

#### 8.9 Summation: 'I just got a sense he was going to be straight with me'

According to services marketing theory, pre-purchase decision making is influenced by a desire to reduce the risk of selecting an inappropriate service which, in turn, is tempered by the ability to obtain sufficient information about the service (Murray, 1991). However, the reason consumers utilise a knowledge-based service like financial advice, is because they lack the knowledge to manage their own investments and find difficulty in locating bespoke information (Murray, 1991). Accordingly, the question arises if a consumer, having obtained all the relevant information about a service, will have the skills to interpret the information in meaningful way. This consideration is also highlighted by Llewellyn (2005:341), who notes that the complexity associated with financial services 'makes rational choices' problematic. The apparent absence of a theoretical base in the field of regulated financial advice, underpinning the nature of business to consumer marketing, led this thesis to explore ideas connected with building enduring relationships thought likely to influence referrals.

It was found that scholars Christiansen and DeVaney (1998) and Sharma and Paterson (1999) identify with communication as a prerequisite to improved relationships, although the data collected for the present study suggests that consumers are seeking communication of an interactive nature, which empowers and educates. This interpretation is supported by literature which indicates that relationships are unlikely to form without mutual communication of wants, issues, inputs and priorities (Dwyer et al, 1987). The sense arising from the data was that clients value an adviser who takes time to understand them and their professional life. Indeed, authors maintain that demonstrating an understanding of the occupational demands that individuals face can be highly advantageous as it can be a decisive factor in professional service firm selection (Day et al, 1992).

There were observable language differences between why a relationship endures and why clients choose to refer. Responses relating to referrals identified specific reasons, using words such as 'explain', 'understand' and 'time', whereas those concerning retaining or terminating a relationship focused more on administrative issues such as 'late reporting', 'expectations', 'performance'. The findings related to referrals connect with the subtheme described earlier as 'professional concern', whereas data was collected that fits with the finding that performance becomes more important to established relationships.

The data suggest that communication skills are of value in relationship building indicating support for the work of Sharma and Patterson (1999). However, it is observed that no single element of advisor-client communication stands out, a finding which resonates with Sharpe et al (2007:140), who note that communication is 'multifaceted'. As Sharpe et al appears to confirm, it is reasonable to query whether or not clients discriminate between the individual components of communication. Although the literature supports the role of communication the research findings are dominated by such individual perception and feelings as '*some people are more flexible than others so you learn to match behaviour ...not consciously to develop an empathy with them....yesterday was at lunch somewhere with two horsey people I just completely switched off as I felt no connection*' (C21i). Other client participants confirmed the importance of feelings and the cues that signal lack of attention by explaining that:

'If they make you feel they genuinely care...they can demonstrate that by listening and caring...for example talking to you and they get your name wrong...shows no care....!' (C18i).

One participant who said she trusted her advisor was asked why, and answered that it was '*purely because the way he communicated*' (C7i). Probing for more information, she was then asked to explain what it was about his communication that led her to trust him. The answer was: '*I just got a sense that he was going to be*

*straight with me*' (C7i). This corresponds with the idea that prospective clients focus on finding a trusted advisor than any other factor (Hung et al, 2008).

During the interviews, it was noted the way clients repeatedly relied upon past interactions to frame current opinion. This finding confirms those of previous studies, that clients respond to contemporaneous issues and the strength of their opinion, of advisors, is conditioned by previous advisor-client encounters (Crosby et al, 1990). This suggests that positive experiences, if continually reinforced, play a key role in sustaining relationships. Drawing from the past provides a deposit of memories which may influence current perception of satisfactory service, particularly where measurement is unreliable. Indeed, clients and advisors appear to agree that relationships need time to develop, leading to speculation that positive WOM is more likely to occur when a relationship has been established. Reinforcing this, one client observed that *'we would want a more in depth relationship before we would recommend'* (C18i) while an advisor commented that *'people need to get to know you...it takes time... if they have confidence in what you are talking about they will refer you'* (A16i). Support for this position comes from researchers, in a related field, who also found that *'advisor-client relationships evolve over time'* (Dyer & Ross, 2007:145). When weighing the findings from the data, no single theme or factor dominated and it is uncertain whether a prospect always asks another party to support an endorsement or whether they seek other recommendations. The data collected for this thesis show that some prospective clients accepted a single recommendation whereas others sought advice from two or three different sources. It is unlikely, although not impossible, that a prospective client will know more than one individual who is a client of the same practice, so when alternative recommendations are sought they are likely to be for different firms.

While literature suggests that emotional issues, like empathy, are central to building advisor-client relationships, the research data do not support this view, stressing instead the importance of performance and service delivery, rather than emotional factors. The findings suggests that, whilst authors regularly focus on one factor of relationships, it is logical to assume that a number of factors are at work



simultaneously. This observation is supported by the work of Heckman and Rubenstein (2001), who affirm that no reliable way to measure non-cognitive skills has yet been found. Drawing upon the data it seems reasonable to dispute that interpersonal skills can be isolated or generate greater impact (Van Zupthen, 2007,) or that they are more 'vital' (Sharpe et al, 2007:4), than other factors in creating enduring relationships.

While there was some contradictory evidence, the shared sense from the data was that participants do not place emphasis on interpersonal characteristics or how the service was delivered. Instead, clients focused on results, as demonstrated by the frequency of comments concerning '*performance*' in the data. Although, somewhat confusingly, the data suggests that consumers are less concerned with actually measuring performance than the outcome itself. It was therefore very surprising to find that not a single advisor spoke of investment performance or indicated that meeting investment expectations had or could influence referrals. Given the weight clients appear to place on performance, advisors have evidently failed to recognise the value consumers place on results. The value consumers ascribe to performance was confirmed when fusing the opinions of the unfettered respondents, with personal clients of the author, no single theme or observable pattern emerged to contradict this finding. Although academics observe that client satisfaction is judged to be based upon affective rather than cognitive factors (Johnson & Grayson, 2003), the research discussed in this chapter suggests that clients derive more satisfaction from cognitive factors that they can measure, such as investment performance and service delivery. This conclusion is supported by Eisingerich and Bell (2007), who argued that cognitive factors have more impact on relationships

In light of the above, it was surprising to learn that consumers are not offered, nor do they seek, benchmarks to measure advisor performance. One way to interpret the absence of benchmarking is because consumers and advisors find difficulty discriminating between advice and product sales, particularly as it seems consumers are unaware that advice can exist independently of transactions. Indeed, the difficulty advisors find in expressing themselves, as other than as an outlet for

product sales, was often reinforced by clients and DIY consumers, who referred to a 'portfolio of ISAs' rather than access to advice. Advisors seem aware that measuring performance is a concern as '*arguments rage...should a reasonable benchmark [be used] to measure value*' (Howells, 2014:30) but, in common with many other occupations, they appear to resist introducing a tool to assess their own performance. It was found that, since clients do not measure advisor performance, when seeking to influence a prospective client, the language they use more usually centres on the likelihood of a harmonious relationship forming between the parties. However, once past the selection stage, now viewing the service from a client perspective, it seems that cognitive issues become of more importance, since many clients spoke of valuing investment performance despite the absence of clear benchmarks. Accordingly, since Buttle (1998) suggested that WOM is stimulated by good performance, perhaps advisors should consider providing clients with evidence of outperformance.

Although literature is confident that relationships are based on around trust (Bland 1997; Doney & Cannon, 1997; Hatfield, 1993; Morgan & Hunt, 1994; Sharma & Paterson, 1999), it seems reasonable to assume that the creation of sustainable relationships should not be considered in one dimension, as embodied by the findings of this thesis regarding trust. Whilst literature indicates trust is a pivotal factor (Christiansen & De Vaney, 1998) the present analysis does not support these findings. Indeed, only one respondent used the word when describing her advisor-client relationship. However the concern was that the views expressed may not be as frank as they could have been, given the propensity for participants to worry over how they might be viewed despite being told their views will be anonymous. The sense that respondents may not understand the issues fully, or choose not to devote time to considering them thoroughly, stems from the contradictory responses provided by some respondents. This thesis therefore counsels caution over judgements regarding trust and related factors.

To conclude, the sense is that clients are reassured by continual professional behaviour stemming from communication that is empathetic, engaging and empowering which engenders peace of mind. The particular findings with respect to

peace of mind led the thesis to agree with Eisingerich & Bell (2007) that every relationship develops differently and are derived and reinforced from reassurance and special treatment. It would seem that clients support these findings:

'You have been looking after our financial affairs for a long time and rescued us from a position which was starting to look hopeless. Suffice it to say that Linda and I are very grateful to you for your professionalism, patience and kindness over the years' (Tim).

## Chapter 9 - Conclusions

### 9.1 Introduction

When arriving at the point that conclusions needed to be drawn for this thesis, I recognised the omnipotent role of the researcher in interpreting research findings. Recognising that alternative approaches to the research may well lead to different conclusions and concerned that my own experience would influence the findings, I have attempted to quarantine my pre-conceptions and only draw conclusions that reflect the data, while accepting that detaching the researcher is challenging (Mason, 2002). This reflexion led me to consider the referral process from three differing perspectives, client's, advisor's and a DIY consumers. That permitted the exploration to deliver insights, arguably more nuanced in nature than could be achieved by an investigation focused on just one case. A pronounced difference was in fact observed between advisors and consumers, as they explained the reasons that led to a referral, which accentuated the advantages of utilising participants with different interests and extolled the virtues of the interview as a means of drawing out richer data. The research was undertaken by a mix of methods, within a predominately qualitative paradigm, by way of semi-structured interviews supplemented by a small scale quantitative measure to extend the analysis. The participants were recruited from those with knowledge of the issues, to enhance the 'credibility' of the research (Bryman, 2008:377).

It is the contention of this thesis that the field of regulated financial services has been ill-served by marketing theory and that, as a consequence, the nature of marketing in this sector has been misunderstood, the key mechanism for generating new business in the field, namely referrals, has been the subject of serious misapprehension and the guidance offered to practitioners has been negligible. The principal cause of these misunderstandings and misapprehensions has been an inadequate grasp of the complexity of this field of business. In order to address the

imbalance, data concerning referral generation, obtained from industry participants, consultants, practitioners and consumers of advice, has been presented and discussed.

### 9.1.1 Organisation of the chapter

This concluding chapter has been organised in the following way; firstly, the findings are summarised, under headings derived from the study aims; next the research limitations and contributions to knowledge are presented; after that, suggestions for future academic research and practical recommendations are proposed; lastly, a summary of the whole project is delivered. For the final chapter it has again been decided to use a blend of first and third person writing, in the belief that this technique will reveal more of the personal judgements of senior practitioner, thereby enhancing the pursuit of reflexivity, while engaging the reader and adding to comprehension. Before the overall conclusions begin in earnest, a brief restatement of the purpose behind the research presented, the aims of the study and manner in which the research was pursued, is presented.

For professional service firms such as practices delivering independent financial advice, finding new clients is of fundamental importance. However, marketing scholars appear to have paid little attention to new client acquisition in this field, often preferring to focus on existing relationships. As a result, a key contributor to that process, referrals, has been overlooked. This thesis therefore set out to explore the role of referrals in new client capture in the field of independent financial advice (IFAs). In order to conduct the exploration, five aims and objectives were identified: (1) define and conceptualise referrals in the specific research context; (2) develop a framework of the referral process; (3) provide IFAs with empirical evidence in connection with their embedded beliefs about referrals in their industry; (4) explore whether, as many practitioner believe, it is possible to actively manage the generation of referrals within a financial advice business; and (5) to investigate the importance of referrals as a means of generating new business by IFAs.

## 9.2 Synopsis of the research findings

### 9.2.1 Defining referrals

A preliminary definition was proposed in Section 1.9 of Chapter 1, which drew from the scholarly work of Kumar et al (2010) and Ryu and Feick (2007). The definition was extended following data collection and reflection, so as to differentiate between, word-of-mouth, a recommendation and a referral and demonstrate the interactive nature of the referral process. The conclusion was reached that a referral is dynamic, but not linear, as it requires a number of elements to be aligned at the same time. The following summarises the referral process. To begin with a prospective client recognises (or speculates on) a possible need for financial advice. To reduce the risks associated with purchasing an intangible service, the prospect seeks advice from someone they know or think has been a consumer of financial advice. Subject to receiving satisfactory and encouraging word-of-mouth, the prospect may ask for or be provided with a recommendation and the contact details of an IFA practice. At this point in the process, an embryonic referral has formed. Continuing the referral process the prospective client decides whether or not to seek a further opinion. If the prospect elects to take up the recommendation, a meeting, with the IFA is arranged, either by the client or the prospect. Should the prospect be satisfied, that the personal chemistry, terms and conditions and financial advice are acceptable, the referral process concludes with a contractual agreement that satisfies regulatory guidelines. Although advisors reported the majority of such referrals became clients (Table 7.2 in Chapter 7), the prospective client has the option to abort the process at any time and the advisor may reject the prospect, so the process is fragile. This conceptualisation of referrals is revisited in the Summary section of this chapter, where a diagrammatic reconfiguration of the referral process is presented at Figure 9.1.

### 9.2.2 Influences on referrals

It was found that advisors believe that they cause or influence the generation of referrals, describing four ways in which they do so: (1) providing excellent service; (2) making timely response client communications; (3) maintaining frequency of contact; and (4) asking for referrals indirectly or subliminally [*ask without asking*] (A7i). They were invited in the interviews to provide an example of an occasion when they had influenced a referral, but in the event were unable to do so. This finding was reinforced by one of the more significant findings to emerge from this study, as it was found that the principal reason clients refer is because they accede to a request for advice or information from a friend, colleague or relative. No evidence was found that advisors do in fact directly influence referrals by delivering excellent service or by circuitously requesting names. There are number of explanations why advisors hold these beliefs. One possibility is that many advisors began their careers in life assurance companies and have retained the ideas acquired in a different environment and of another time. This finding connects with the content of professional examination syllabuses, which are dedicated to technical matters, leaving advisors to search for reliable sources of information regarding client acquisition. This gap has been filled by consultancy providers, who extol the virtues of commercial referral programs, predicated upon linguistic dexterity and sophisticated client propositions. Despite evidence to the contrary many advisors seem unwilling to acknowledge that a crucial source of new client acquisition is beyond their control. Advisors wish to be regarded as professionals whose skills are sought out, keen to emphasise the essential nature of their work, while viewing referrals as a means of underpinning their professionalism. To admit that they have no influence over referrals, as they occur without their involvement, would diminish their self-esteem and fracture an important link with professionalism.

### 9.2.3 Managing for referrals

It was something of a surprise to find that when writers conceptualise referrals that their interpretation is at odds with what a practitioner understands a referral to be. Boles et al (1997); Johnson et al (1997); Johlke (2006); Weitz and Bradford (1999) and industry participants such as Allison (2013); Anderson (2012); Beveridge (2013); Caneva (2014); and Vidler (2012) all suggest that referrals may be elicited by excellent service and linguistic skills, but the evidence points elsewhere. The literature does address relationships in professional services, but it is not a characterisation that IFAs can relate to. Academic authors perceive word-of-mouth and referrals to be homogenous, and they use the term referral in too casual a sense. They choose not to discriminate between customer and client, using the terms loosely, interchangeably, without clarity, and portray the practice of independent advice as part of a financial services industry that includes banks, which it can be reasonably argued it is not.

The contention of this thesis is that referrals are not directly influenced by advisors, rather they are determined by happenstance given the research data show clearly they occur naturally, without advisor instigation. This finding supports the contention of Helm (2003:124) that referrals are largely 'unmanageable'. These findings are rather disappointing, since it was hoped that a reliable methodology might have been unearthed. However, the data do hint at the possibility that positive word-of-mouth may be influenced by service quality and by advisors who make an impact on their clients, there being evidence from the interviews to suggest that advisor traits or actions that are memorable, humorous or just different may lead to clients to mention their advisor in conversation with friends. The data further suggests that advisors who engender '*peace of mind*' both (C13i) and (C19i) are more likely to receive recommendations, since clients who used this phrase offered spontaneous praise and gratitude when talking about their advisors.



To sum up, this thesis has found that referrals are random, occurring when a prospect identifies a need, seeks information and decides how to proceed with recommendation should one be forthcoming. To investigate the unpredictability of referrals, all participants were asked to describe the circumstances surrounding the most recent recommendation they had made, yet none chose professionalism of service as a case in point. This finding may perhaps confirm the scarcity of referrals, in this field, as while participants commonly spoke of providing recommendations for less complex services like restaurants, films, hairdressers and garages, none immediately mentioned financial advice without prompting. Related studies appear to endorse these findings by noting that WOM is normally 'sought' or requested, rather than provided, and then only really valued when a need arises (Sweeney et al, 2008:355). Accordingly, referrals may be considered uncontrollable since managing for referrals is challenging if not impossible (Woo & Ennew, 2005; Helm, 2003). To some extent, the term 'referral management' could be considered an oxymoron.

#### 9.2.4 The importance of referrals

Referrals are held to be important to reduce the risks associated with utilising a complex service such as independent advice (Mangold et al, 1999; Murray, 1991; Reingen & Kernan, 1986; Sweeney et al, 2008; Zeithaml, 1981) but the literature has not addressed referrals in the field of independent advice or in the context of attracting new clients in a professional service. This thesis has shown that advisors view referrals to be crucial as orthodox marketing methods are thought to be unreliable or ineffective. Many participants in the interviews explained that they had experimented with forms of marketing without success, hence the reliance placed on referrals. The data supports the proposition that orthodox forms of marketing are relatively ineffective in that no participant was found to be following a marketing strategy. Support also comes from the survey findings in that 15 out of 20 advisors reported that over 75% of new clients came from referrals and others claimed that all their clients were referred. One unanticipated finding was that, despite the importance of referrals, advisors do not maintain a record of referral numbers and thus, when asked how many they had received, they resorted to estimating the

number. The evidence provided by this thesis presents an opportunity for marketing researchers to re-examine marketing theory as it relates to new client acquisition in a professional service.

### 9.3. Limitations

This study, in common with many mainly qualitative studies, relied significantly on the skills of the researcher. This is a small scale qualitative study, where generalisation cannot be justified, but it does report and reflect the views of a wide range of knowledgeable professionals and consumers. The non-random sample drawn for the quantitative element of this study cannot be considered as representative of the entire population of advisors, consumers of advice or DIY consumers, since only a large quantitative study could hope to generalise in this fashion. It is acknowledged that, in some quarters, a qualitative research study may not be as well received as one using quantitative data, which some will view as being more scientific. It was not possible to collect the volume of data originally intended, mainly because advisors were reluctant to allow access to their clients and because my resources are finite. These obstacles notwithstanding, useful data were obtained from clients without the knowledge of their advisors. As some of the advisors were anonymous, it was not possible to draw any conclusions about the size of the firms, the scope of their resources, their qualifications or their gender. However, it is believed that the research design did allow consumers greater freedom of expression, even if, at the same time, it made connecting the data to a particular advisor impracticable.

It is recognised that the quality of any research is influenced by biases and idiosyncratic characteristics of the researcher and that my involvement will therefore have affected the responses. It is likely that advisors sought to provide responses they thought would satisfy me, so my involvement may have influenced the interactions. I sensed that the advisors were guarded when dealing with a fellow practitioner and that they tended to use language they thought was appropriate or

impressive rather than revealing their innermost feelings. Advisors thus took refuge in an internal vocabulary that they assumed would be understood by a fellow practitioner, and yet when pressed could not explain what a 'holistic', 'integrated' or 'added value' service meant in practice. Consequently I cannot be certain that my interpretation of the discourse was always accurate. However, a feature of semi-structured interviewing is the ability to redirect the discourse, which helped overcome these issues to some extent.

It is possible that some participants may have unconsciously constructed stories in order to appear knowledgeable as it was apparent that they were being asked to reflect on issues that they may not previously have considered. This seemed to feature more to interviews with participants who held positions of authority. Furthermore, the subjects may not have fully grasped the nature of the questions, however carefully they were crafted, resulting in unknown levels of ambiguity and misinterpretation. On a number of occasions, questions I put to interviewees were deflected, answered indirectly or possibly misunderstood. A number of the participants explained that they felt they need to be cautious in their responses as they were influenced by my own background and knowledge of the investment world. This led to concern that some participants might have provided answers that they felt were appropriate because they did not wish to appear unformed. Accordingly, it would be interesting to know how interview transcripts might have differed if a non-practitioner had conducted the interviews.

With the benefit of hindsight, richer data might have been forthcoming, if permission had been granted, to attend advisor-client meetings as an observer. It is envisaged that, if such meetings had happened, involving the same advisors and clients a more informed picture would have emerged, particularly if the advisor attempted to solicit referrals. It is also unclear whether or not beginning with consumer interviews and following them with advisor interviews would have altered the conclusions. A further research limitation was imposed by the very recent introduction of the Retail Distribution Review RDR, since the impact upon advisor-client relationships and

referrals is as yet unclear. Academic authors have yet to address the question of referrals in the context of the ban on commission that resulted from the Review. This study has drawn conclusions from a distillation of the collective views provided. A potential criticism of this approach is that an aggregated view may not be reflective of the individual participants, since by definition the average view has been dominant. This is particularly concerning given the role perception seems to play in making judgements to relationship quality which connects with the concerns expressed by Christiansen and DeVaney (1998) concerning the measurement of shared values. The thesis has not considered if more weight should be given to affective or cognitive influences, particularly since the latter are time dependent. This alerts me to the possibility that the ubiquitous and pervasive nature of affective factors may be more influential than my research has shown.

Although it was not a specific research aim, it was disappointing not to have discovered something of why some advisors are more successful than others. Auditing the number of referrals obtained by each advisor would have required management information that is not currently available. In addition, it would have called for analysis of the performance of a number of advisors within one practice, if effectiveness were to be explored. What the research has achieved, however, is to identify the best way to pursue this endeavour and it is hoped that an exploration into this area can begin after this DBA is concluded.

It is possible, had this research been conducted earlier, that entirely different responses would have been forthcoming, since the participants would not be aware of the commission ban or the adverse press coverage inflicting the financial sector as a whole following the partial collapse of the banking sector and, in particular the demise of the life assurance industry. All these factors, particularly the increasingly negative press, are likely to have changed attitudes over the past decade and thereby affecting consumer responses, since even good firms suffer 'through any generalised lack of confidence' (Llewellyn, 2005 :345). No doubt new factors will emerge, which future researchers will need to take account of. Lastly, I am keenly aware that qualitative research cannot be generalised to the population as a whole in

the same way as quantitative data can, since qualitative data cannot be subjected to testing of statistical significance. This may be a cause for concern among the advisory community, which are accustomed to the perceived certainties that stem from numerical analysis.

#### 9.4. Contributions to knowledge

The management of this research process benefited significantly from the unique level of access to data made possible by my background and experience, and the possibility of harnessing the experiences of a senior practitioner to interpret the data from arguably a more informed perspective than that of a researcher with less experience of the profession.

It has been asserted throughout this research that little relevant literature was identifiable that could assist with the construction of a theoretical framework. The content, findings and conclusions, of this research, will therefore make a significant contribution to the extant literature, in the field of advisor-client relationships and also in other fields associated with consumer-business interaction. This thesis argues strongly that literature has misunderstood the genesis of a referral and misapprehended that it is prospects, not clients, who instigate referrals. No evidence was found to support the two assertions made by participants in the research that superior service standards generates referrals and that clients will become advisor advocates.

It is expected that the conceptual framework of the referral process set out at Figure 9.1 will provide fresh insight into the antecedents of referrals, while clarifying the relationships among word-of-mouth, recommendations and referrals, in the context of a highly regulated professional service. It is hoped that this finding will cause

researchers and writers in the field to question the conclusions arrived at by earlier writers and to speculate if some important issues have been overlooked by prior studies, in particular the notions that word-of-mouth is synonymous with a referral and that a recommendation or endorsement will automatically lead to a referral. In addition, it is argued that the prevalent assumption that a product transaction needs to occur to validate a referral can be dismissed in the context of independent advice, and probably also of other professional services. It consequently seems reasonable to invite academics to question whether all professional services value word-of-mouth in the same way. Whilst it clearly has a significant role in the referral process, WOM exhibits bi-lateral properties, since word-of-mouth communications may expire valueless or lead to a referral, in particular circumstances.

The interview responses supports the proposition that orthodox forms of marketing are relatively ineffective as a means of new client generation in the field of independent advice, given that no participant was found to be implementing a marketing strategy. Many had experimented with forms of marketing without success, and now placed greater reliance on the referral process. That conclusion is supported by my own experience over the past 30 years.

The potential contribution of the thesis to practice has been significantly greater than expected, since the number of embedded beliefs that have been dispelled by its findings was not anticipated. Those findings suggest that advisors have misunderstood the source of referrals, conflating and confusing communications with clients as a factor that influences referrals. The evidence shows, however, that it is external factors beyond the control of the advisor that are of fundamental importance. When comparing the findings of consumer interviews with the results of the surveys, a surprising degree of unanimity was found, as all respondents offered similar reasons for the stimulus of a referral, displaying little evidence of different interpretations, and lent support to the proposition that referrals are externally influenced.

Although the thesis has not uncovered a method of soliciting for referrals, it does appear likely that advisor behaviours may influence clients when they are considering voicing positive or negative word-of-mouth. While WOM does not necessarily ensure a referral, it is the first step in the referral process and it seems that advisors who have a memorable story, or personal attributes, which can be mentioned in a casual conversation, are likely to improve their prospects of achieving positive word-of-mouth endorsement. It is also clear that advisors who demonstrates professional concern are more likely to be rewarded with positive word-of-mouth. Professional concern describes the delivery of care and attention beyond the simple provision of advice, characterised by one of my personal clients who took part in the final set of interviews as being '*never reluctant to explain things enough times*'. It is also evidenced by knowledge of client occupational concerns, and an awareness that legislative changes are likely to impact their future planning and the sharing relevant personal information.

Strategies being marketed to advisors were found to be flawed, in particular promoting the notion that asking for referrals was effective. Advisors who solicited for referrals found that it was rarely, if ever, successful and clients on the receiving end do not welcome such an approach. No specific form of words was considered to be beneficial and no evidence was found to support the contention that asking indirectly, or subliminally, had a bearing on referral propensity. Advisors would thus be better advised to spend time developing a memorable persona or 'personal brand', rather than subscribing to a referral program. One clear finding from the research is that IFAs should consider carefully before engaging consultants, given that the data offers no support for models of new client acquisition that involve the use of a particular phrase or expression in asking for a referral, asking in a subliminal way, or exploiting qualifications, service standards and contact frequency. Accordingly, it is reasoned that the exploration of embedded beliefs has been fruitful in identifying where misapprehension and misunderstanding co-exist.

Sharma and Paterson (1999:155) have asserted that clients cannot readily assess the technical quality of a service as it 'unfolds over time. That assertion was

reinforced in became clear that interview participants rarely quantified objectives or perceptions, preferring to make prosaic statements like '*good track record*' (C8i) and '*good advisor*' (C15i). When asked to explain what 'good' meant in that context, these clients could offer no clear explanations. It follows that consumers should consider carefully before relying on word-of-mouth information from existing clients, since it questionable whether clients are qualified to make judgements of complex services in other than in superficial terms. They report using no benchmarks to measure advisor performance but instead relying on casual intermittent review of indexes, like the FTSE 100, and media reporting of investment performance. Consumer understanding of the service that advisors provide was found to be patchy and largely based on perception, which may reflect the inability of advisors to present a coherent explanation of their service in other than investment terms. Since advisors do not offer a means to measure their performance, word-of-mouth can at best be considered an indication of the strength of a relationship, which may or may not suit different personalities, and thus should be regarded with caution. To lessen the reliance on WOM of questionable value, it is suggested that prospects should be offered or should request to be provided with the contact details of three existing clients, who have relationships of different durations with the IFA, in order to authenticate whether the particular advisor is appropriate for their needs, since the clients will at least have first-hand information about the service.

## 9.5. Future Research

As this thesis evolved, I realised that I had identified a number of researchable topics that could be pursued during post-doctoral research, or by other researchers. One topic might derive from the confusion found over the differences between advice and selling. An exploration into the perceptions and assumption that underpin both constructs might add to the body of knowledge relevant to client-advisor relationships and the process of referral. Contemplating how I might approach such future research projects I realised that experience of using mixed methods would be of particular value in my field and could provide an 'opportunity for lifelong learning' (Brannen, 2005:5). I also recognised that, since my training and background,



probably in a similar way to other practitioners, has mainly been quantitative in nature, by presenting results that include qualitative data the value of mixed methods may be defended. A possible limitation of mixed methods design for post-doctoral research, is that researchers are likely to experience difficulties in having their results published, when so many journals favour a single research method (Brannen, 2005).

It would be interesting to take the findings from this exploratory research and examine them further using a large-scale quantitative survey. Two research questions derived from the current findings that could be addressed in such a way are: can word-of-mouth be useful and reliable as a source of information in complex professional services, and is asking an effective way of generating referrals?

Although the research did specifically not set out to shed light on the reasons why, in practice, some advisors are more successful than others, it was hoped that some indicators might emerge. To explore this field would require the cooperation of a firm, employing a number of advisors working in the same practice, with similar resources, since eliciting the factors that influence individual success would require a comparison to be made across a number of advisors in the same environment. Consequently, I took the opportunity during this research to explore the potential for the necessary access to the right kind of host company, and I have held preliminary discussions with a number of medium-sized practices, one of which it is anticipated will consent to assist with the research. I envisage obtaining permission to attend client meetings, as an observer, and afterwards to interview both the advisor and client. Should a referral be forthcoming a further two interviews will take place, one with the referrer (the client) and another with the requester (prospective client) to establish the reasons behind the referral. Given my earlier findings, it is suspected that no management information will be available but it is assumed that anecdotal evidence circulating within the practice might provide cues about which individual advisor is thought to be generating the most referrals. It will be intriguing to compare reality with perception.

A particular concern, for consumers, was the difficulty they found in locating and deciding how to choose between advisors. This was an issue among both DIY consumers and clients who, surprisingly, wanted reassurance that they were receiving optimal advice. Research undertaken on behalf of the FCA has also found that consumers are unsure how they can identify an appropriate advisor (NMG, 2014). Hence I propose developing a simple comparison tool for consumers, which will enable them to measure credentials of IFA firms. It is envisaged that consumers would use it by sending a questionnaire, currently under development, comprising quantitative and qualitative, questions that would compare the relative qualities of advisors. Questions are likely to be concerned with; professional qualifications, charges, investment performance, contact frequency, number of employees, tenure, number of clients per advisor; and other measurable factors. This would allow clients to assess both existing relationships and provide a benchmark for consumers aiming to use an advisor for the first time. It is expected that this model could be used to augment other consumer tools in this domain. Professional transparency is becoming increasingly important in many walks of life and consumers of advice deserve to be better informed. It is hoped to garner support for this initiative from professional bodies and other interested parties. Contextualising the relevant professional standards and current competencies of individual advisers could help consumers to select an appropriate advisor. This would be particularly helpful, given the absence of one professional body and the eclectic nature of examining boards. Eventually such disclosures could condition advisers and consumers that the qualification standard for all advisers should be at least Chartered status. I have more than a passing interest in how professional services firms, like IFA practices, develop. As my personal case history illustrates, firms can survive and flourish when the founding entrepreneur departs. I would like to explore whether continued growth is dependent on achieving scale (based on a number of clients or fee income), a change of attitude amongst existing management, or other factors.

It is clear that, on the one hand, practitioners elect to describe themselves as advisors and wish to be perceived as delivering financial advice and yet feel they have to persuade consumers to buy their services while, on the other hand,

consumers do not wish to be 'sold to' and do wish to receive advice. I would like to explore this paradox and identify the boundaries that separate advice and selling, as the distinction is of interest to consumers who are said to need to recognise when they receive and advice and when they are being sold a product (Lewis, 2014).

Finally, it should be made clear that when conceptualising the research plan a number of research themes were evaluated which did not feature in the completed thesis. The Issues that were explored included those relating to gender, the differences between advice and selling, the point at which advice becomes selling, if indeed it does, why orthodox or conventional marketing methods appear to be ineffective in this field, what happens after the referral is complete, that is should the referral framework be extended and why so many individuals working within the investment community do not utilise IFA services when their companies rely on IFAs to distribute their products. The boundaries of the research are consciously constrained by the five research objectives since it was felt they could best address the complexities associated with referrals. Accordingly, it was felt that the forgoing themes were outside the scope of the present research and could be better handled separately.

## 9.6. Recommendations

Financial advice can be complex and requires skilful communication to ensure understanding. Many advisors participating in the interviews revealed that they present client information in exactly the same way. None reported using differing presentational methods or experimenting with different techniques to determine how their clients learn new information. Consequently, I propose that advisers should be trained to present information in a variety of ways reflecting a client's learning style. They should experiment with visual, auditory and kinaesthetic presentation styles and note the words clients use in responses, as they will signal the preferred learning style that best suits the client. This approach connects with my research findings relating to 'peace of mind' which is noted to have a 'calming effect' (Sharpe

et al, 2007). Ensuring that appropriate language is used is particularly relevant, given that consumers are thought to be suspicious of complex discourse, as it is likely to add to trust and demonstrate empathy (Lewis, 2014). Thus, when clients are presented with the opportunity to refer, they will be able to describe the lengths the advisor went to in order to connect and relate with them.

A number of consumers mentioned in the interviews that they had become disillusioned with equities, saying that since the events of 2008, as '*it's just a bit of a casino*' (C7i) and implying that their advisor was not addressing their concerns. How clients and advisers react to changing market conditions requires sensitive handling, so drawing upon the work of Nofsinger and Varma (2007:251) I suggest that both advisors and clients should evaluate respective their risk tolerance and decision making by using a 'cognitive reflection test'. Advisors will enrich their understanding of clients' motivations in a way that engages and interests them, while conveying a willingness to interact with an intellectually demanding concept that is of no direct financial benefit to the advisor. This proposal this connects with the concept of cultivating a caring persona and demonstrating professionalism while provides clients with a reason to share memorable information with friends.

The data indicate the importance of '*peace of mind*' (C19i). A notion that might usefully be explored further, is connected with concept of 'internal marketing' (Brown et al, 1994:36), which asserts that all employees should be sufficiently motivated so that they will share that enthusiasm with clients (Brown et al, 1994:36). One way in which internal marketing might be operationalised within an IFA practice, would be to invite, or require, all employees to use the services of the firm, whenever they have a financial need, so that, borne out of experience, they can genuinely describe the qualities of the practice to their network of contacts and when speaking with clients. This could be particularly effective if the agreement with clients makes clear that all employees are required to invest in the same assets as their clients. By consuming their own advice, practitioners are demonstrating faith in the service they offer while potentially mitigating some of the intangibility that, academics argue, is so difficult to cope with when trying seek to explain the service they offer.

No specific link was found between the factors that create and sustain advisor-client relationships and the generation of referrals. Indeed, I speculate that the influences may be entirely separate, as referrals seem to emerge with a randomness that defies profiling. Another consideration is that referrals may be conceived when people attempt to reduce the risk of making the wrong decision by seeking an endorsement from someone they rely on. Remaining within its predetermined boundaries, this thesis did not focus on timing of referrals, but, whilst anecdotal evidence suggests referrals are offered early in relationships, contrary evidence suggests they emerge when relationships are established. Since researching the timeline of referral provision would add to the body of knowledge, I recommend that IFAs consider maintaining a log to chart the point at which referrals are forthcoming. In addition, it may be of value to monitor the gender, occupation and age profile of referrer, in order to recognise and understand any patterns emerge. In the same way that advisor-client relationships take time to evolve, monitoring referral provision will acknowledge that advisors need time to mature into the role and may well benefit from emotional support in the early years, particularly if they are being urged to find new clients. Role-plays can be particularly helpful in highlighting in which further interpersonal skills training and emotional support might be of value, given that performance is said to be 'dependent on feedback' (Eraut, 2000:134). It would seem reasonable to speculate that a new client might be inclined to share knowledge with others, within the same network, who have also expressed an interest in money matters. By monitoring the performance of advisors handling referrals, a 'referral journal' could be originated to calculate and record the number of subsequent referrals that result from each meeting with a referred prospect. The more successful advisors could subsequently conduct role play exercises, to illustrate to their colleagues the scenario that led to a further referral.

A clear finding of the research was that clients establish a positive relationship exists with advisers who demonstrate professional concern and can deliver a structured process in a language clients understand. Whether or not these skills are identifiable by emotional intelligence testing is an intriguing notion. Screening advisers for 'social competence' and 'emotional intelligence' (Eisingerich & Bell, 2007:262) would be a fascinating experiment. The data do indicate that losing money is a concern for

clients, which suggests that advisers should develop a clear method to explain the nature of stock market volatility particularly as risk tolerances may be influenced by recent market performance (Olsen, 2010). Accordingly, if positive WOM is influenced by advisers who exhibit professional concern and engender peace of mind, those advisers who are socially adept and connect emotionally with their clients are likely to yield more referrals.

Given the reported value of peace of mind and professional concern for successful relationships, I recommend the introduction of a performance indicator based upon the ability to demonstrate those two qualities. The data suggest that professional concern is demonstrated in a number of ways but in particular by a thorough understanding of the client circumstances and by '*going the extra mile*' (C14i). That finding suggests that advisers familiarise themselves with the non-monetary aspects of a client's life before each meeting, and be prepared to share helpful information that connects with the clients leisure, family or professional interests.

The comments of the client interview participants show that referrals are as likely by happenstance as by design. They explained that referrals are typically the result of a friend or colleague indicating that they need assistance with money management, rather than being instigated by the client. Clients said that they responded when they were '*asked for help*', when '*he was talking about money*', or '*complaining about death duties*' or simply because someone had '*asked for my advice*' (abstracted from Table 8.3 in Chapter 8). The language clients used clearly indicates that the stimulus for the initial word-of-mouth exchange is externally driven, in that it was instigated by the requester. If this proposition is even partially correct, then asking for referrals as advocated by many commercial companies, may be counterproductive. Since the data also indicate that clients do not respond well to requests for referral, I suggest that advisers attempt to identify clients who are influential and who have a large network of contacts. It is proposed that firms adapt the segmentation method advocated by Reichheld (2003), which aims to establish overall levels of customer loyalty so that resources may be focused on those clients more likely to be supportive. Harrison (1994), also investigating segmentation, found that prospects

with the best knowledge of financial matters are more likely to seek independent advice, although how they could be sourced was not explained (Harrison, 1994).

I recommend that, recognising that referrals occur by happenstance, the propensity for clients to refer should be included in the benchmarking advisor-client relations as an addition to the usual financial measures of adviser performance. This will focus both the firm and adviser on the client. In a similar vein, it was noticeable that, other than the occasional client satisfaction survey, advisors did not attempt to engage with their clients either socially or intellectually. Many clients will welcome the opportunity to express opinion and make suggestions to improve the service they are receiving. Consequently the opportunity exists for advisors to seek assistance from local university business schools to gather and analyse intelligence concerning client opinions, which can be deployed in the promotion of better engagement and understanding of client concerns. Moreover, it seems that IFAs may have underestimated of the value of academic literature as a medium for addressing commercial issues, which offers a rich seam into which knowledge drills may be inserted when mining for new understanding. It is likely that by utilising academic research, advisors will learn more of why clients refer than if they conducted the research themselves, because consumers of advice are more likely to respond freely to an independent researcher than a professional firm with a perceived vested interest. That said, Ankers and Brennan (2002) found the first hurdle to overcome is to make practitioners aware that useful academic research exists. However, in order to know what knowledge transfers would be of value to practice, academics will need to spend time understanding how practice really works (Jarzabkowski et al, 2010).

Evidence from the data suggests that clients will share information that is humorous, memorable, easily transmitted without embarrassment, yet hinting at prudent decision making. By extension it would seem reasonable to assume that armed with this type of information clients will more readily refer than without it. Accordingly advisors should ask clients to describe what distinguishes them from other advisors and invite clients to explain what they have said to friends about their relationship. Advisors can then identify what has been said that has resulted in a referral and the

results will allow advisors to reflect on the perception clients have of them and permit strategic modifications of their public identity to give clients something to share.

Though the interview evidence was ambiguous it is clear that some clients will not refer again should a previous referral be rejected. To mitigate this effect somewhat, advisors should put in place joint ventures arrangement so that rejected referrals can be offered an alternative IFA practice to deal with. Noting the interest consumers expressed in receiving appropriate recognition for a referral, as '*...loyalty should be rewarded*' (C19i), advisors could consider a more nuanced approach to rewarding referrals, of a type that would provide an opportunity to explore the background to the referral, so that that any patterns or themes may be discerned. Each practice usually has particular strengths or knowledge of different occupational groups which, when aligned with a cognitive understanding of how previous referrals were attained, could be utilised to enhance the provision of referrals.

Interpreting the data proved to be challenging, since it soon became clear that not all participants were sufficiently acquainted with the complexities and influences behind referral generation to offer an informed opinion. However, consumers did responded more thoughtfully after clients were invited to imagine a reversal of roles and visualise being an IFA seeking new clients. This enabled them to picture the difficulties advisors face in sourcing new clients and led them to draw from their own experiences and offer many interesting suggestions including '*Offer free tickets to the Museum with each appointment*' (C13i), to encourage attendance at review meetings, '*Collect us from home as not everybody wants to drive into busy town centres*' (C17i), which seems an eminently sensible idea given client demographic of many firms. These ideas invite advisors to be more creative when considering ways of extending client relationships and stimulating referrals.

Finally, mirroring my own experiences, advisors indicate that it take time to acquire the skills needed when the field is complex and requires heightened 'tacit knowledge', suggesting that newer advisors require the kind of support which is best



delivered by attending meetings with established practitioners (Hohenschwert, 2012:156).

## 9.7 Observations

A feature of several advisor interviews was a sense of world-weariness in their voices, as they expressed frustration at yet another change to their working practices. These had been brought on by the after effect of RDR, with many advisors becoming emotional about perceived injustices associated with a being a financial advisor. The sense was that they felt deserving of better treatment by regulators and, to some extent victimised by a regime they perceived to be overbearing and unnecessarily punitive. A few advisors viewed their relationships with clients with suspicion, feeling that they had to continually protect against unwarranted complaints ‘*egged on by ambulance chasers*’ (A17i). As anticipated, self-interest manifested itself in the divergent views of advisor-interviewees, some were found to be preoccupied with promoting themselves and sometimes implying they had higher ethical standards than their peers. It was puzzling to hear sole trading IFAs continually describing themselves as ‘*we*’, implying they were part of a larger practice with other advisors, when a rudimentary search would have disclosed that they had no colleagues.

Whilst it was not overtly expressed, the sense was that, despite the increasing numbers of advisors voluntarily achieving chartered and/or certified planner status, interviewees felt frustrated at not being regarded in the same way as accountants or solicitors perceiving that their role had been stereotyped as that of a product salesperson. Others bemoaned a lack of legislative recognition for their skills when, in other fields, consumers are compelled to use elements of professional services, like accountancy and law, where no legally approved alternative is permitted. Advisors argued that this means they had to engage in continual client capture activity, hence cultivating an external perception that they are more concerned with procurement than advice. They reason that client acquisition is simpler in

professions in which an element of compulsion exists. I did try to envisage a parallel occupation, where the consumer decision, to use service is wholly discretionary, eventually arriving at landscape gardening. I had a number of discussions with gardeners and found many similarities in their method of operation, since they rely on maintenance work (analogous to recurring income for practitioners) to sustain their practice while procuring virtually all new clients from referrals.

During all the interviews many non-verbal signals, such as body language, facial expressions and linguistic tone were detectable, all of which added to the interpretation of the data. Drawing from these signals, I deduced that clients considered advice per se was something of an illusion whereas DIY consumers needed reassurance that they would receive value for money if they engaged an advisor. Despite prompting for more insightful comments, it was often found that, client responses to the interview questions were characterised by imprecision and such ill-defined statements like '*good performance*' and '*professional approach*'. If clients are unable to quantify what is good or poor performance, this likely to be a concern for advisers, as misunderstanding may lead to complaints, although it is conceivable that advisers may cultivate imprecision to defend against charges of poor performance. The data from the DIY consumers follow a similar pattern, validating the client data, in also focuses upon performance, results and process, although with noticeable absence of quantification. In contrast, initially at least, all the advisers appeared to relate questions about referrals to the quality of existing client relationships rather than managing for new clients. The majority of advisers, however, did eventually request a summary of the research findings and indicated that the interview '*has been really stimulating...actually very thought provoking*' (A8i) Three advisers went so far as to request a further meeting to share ideas stemming from the research.

It was a surprise to find that advisers seemed to content to practice without seeking closer engagement with their clients, characterised by an absence of social interaction and marked by a reluctance to survey or interview their clients in order to understand their needs better. The sense was that advisers felt they might risk

destabilising existing client relationships if they asked clients to describe what they value, or didn't, in the advice process. This sense was reinforced when it became clear that advisors had not conceptualised what they do in terms that could be readily explained to clients.

## 9.8 Summary

I personally recall life assurance companies describing attracting clients as straightforward because the population yielded up of a constant new stream of hatches, matches and dispatches (births, marriages and deaths). In the 1980s, sales of protection and savings plans were widespread, which probably suited life assurance companies, while less costly and more sophisticated investment vehicles were yet to become popular. Advisors were remunerated by commissions, payable following the sale of a product, which led them to focus on practices that would lead to a product sale, and the vestiges of those methods remain in evidence today. Non-practitioners suggest that finding new clients is simply a case of being active, prospecting and asking, yet despite the alleged simplicity, financial advisors still rely on referrals, not having found any other reliable method of new client capture. Advisors perceive that demand should exist for their services, but is hampered by a lack of consumer understanding. Yet clients seem to view advice from a transactional perspective, not a relational, meaning that demand needs to be stimulated especially now that fee-based advice has arrived. Advisors recognise they have difficulty in explaining their services intelligibly, which fits with the problem of intangibility that Grönroos (1978) and others have identified, but it does not explain why advisors find orthodox marketing methods ineffective. Resolving this conundrum is outside the scope of this thesis and seemingly for scholars, since writers have tended to focus on the conceptual arguments for treating services differently from goods or on the features of services (Murray, 1991; Zeithaml, 1985).

Looking to the future, many knowledge based professions are likely to see their power bases diminished as increasing use of new technologies will disseminate

more technical knowledge than was previously available. Arguably, this represents a greater threat to financial advice than many other fields of endeavour and advisors consequently need to reconceptualise the nature of their service in ways that will be attractive to consumers. One advisor explained that he had designed his service so that it required '*human interaction*' (A18i), noting that consumers are persuaded that investing is straightforward, whereas the reality is that investing is simple but the problems arise with withdrawals. It seems the investment industry are very quick to facilitate investment yet provide '*little help when it comes to accessing money*' (A5i), often subjecting consumers to unforeseen penalties and administrative barriers allegedly caused by money laundering legislation. The absence of an academic publication with connections to the financial advice community has allowed a number of assumptions to evolve and flourish. Commercial organisations offering consultancy services and product providers have both been allowed to perpetuate the growth in assumptions without any academic challenges. The introduction of a peer-reviewed journal to explore matters pertinent to practice is arguably an essential requirement for any profession, particularly one that is desirous of higher recognition, as independent advice. I argue that the juxtaposition of academic research training punctuated with practical experience amplifies the value of practitioner based doctoral research.

The data collected by this thesis has presented an opportunity to redefine and reconceptualise referrals and to build a conceptual framework for the referral process. The approach taken is to distinguish between the formation of a referral and a completed referral, and then develop a framework of the entire process. Table 9.1 accordingly attributes a value to each element of an emerging referral, utilising abridged examples from statements made by prospects and clients, in order to provide an indication of the discourse during the referral process. It is emphasised that a referral is not fully defined until an agreement is reached and contracted. It is also argued that the role of the advisor is passive, in the embryonic referral process, as the referral is stimulated by external forces. The role of the advisor only becomes active when contact is established between the prospect and the advisor.

Table 9.1 Antecedents of an embryonic referral

Elements	WOM	Recommendation	Introduction	Embryonic Referral
<b>Value</b>	Weakest	Intermediate	Strong	Strongest
<b>Indicator</b>	Positive or negative discussion	Endorsement of the firm or advisor	Provision of contact details	Offer to contact/introduce prospect to firm
<b>Prospects</b>	'I am in a muddle with...'	'Are they any good?' Do you find them helpful?	'Not sure if I have enough money'	'Can I have their details?'
<b>Clients</b>	'I have someone who does that for me'	'I find they are very helpful and they are local'. 'They take time to explain issues'.	'Would you like their contact details?'	'Shall I contact them to see if they are accepting new clients?'

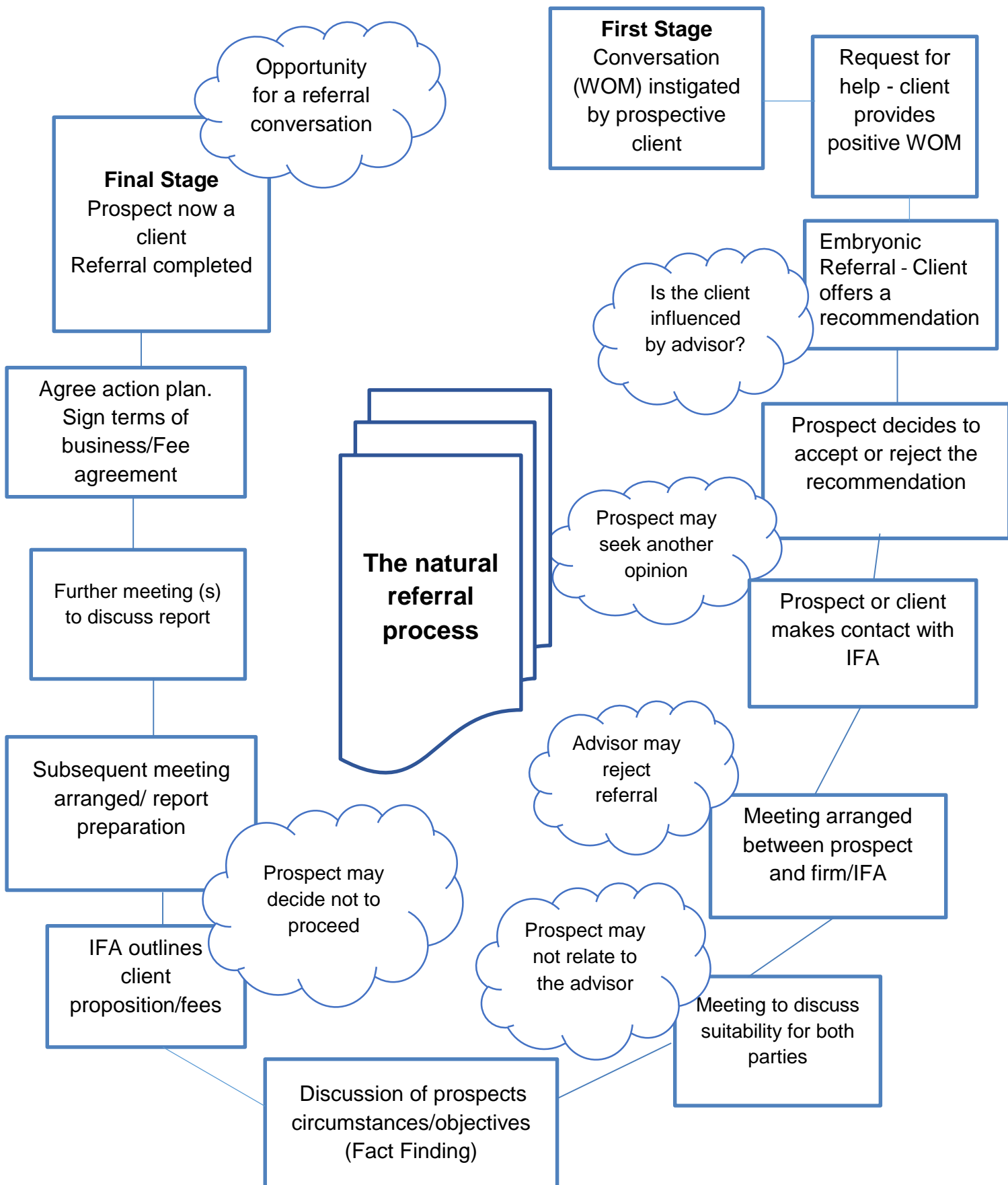
(Source: original)

At this stage in the research process, it is abundantly clear that the earlier, tentative, representation of the natural referral process at Figure 1.1 in Chapter 1 should be extended to include the findings that have emerged from the analysis of the survey and interview data. Figure 9.1 therefore offers a more detailed conceptualisation of the natural referral process by utilising the evidence that emerged from the data. The additional elements, include: the possibility that advisors can reject a referral on grounds of suitability and that prospects may decide not to proceed with a recommendation; the fact that prospects often spend time evaluating a service before coming to a final decision, (perhaps exploring the services of more than one

advisor); the reality that prospects do not blindly accept word-of-mouth and decision making is deferred until a meeting has taken place and assessment of the service provider has been arrived at. Thus, the referral process cannot be characterised as a simple exchange of positive word-of-mouth; it is interactive and dynamic, affording numerous opportunities to abort the process. It is recognised that marketing academics have written extensively about consumer behaviour and decision making and may associate the referral framework, presented here, as being similar to the 'hierarchy of effects models', such as the well-known 'AIDA'. But as Barry (1987: 251:252) observes those connect consumers to advertising and the purchase a product or brand, which is an entirely different conception to that required to produce a referral. In contrast the referral framework presented in Figure 9.1 does not focus solely on the consumer or the purchase of a product, nor is it decisive. Rather it is dynamic, less certain in its outcome, and requires a number of iterative decisions to be made. It is also observed that the timing of completed referral may be deferred as the prospect may decide not to act immediately. Perhaps this affords the possibility to classify referrals in two ways; conclusive and inconclusive.

For practitioners, a referral is a process that represents a commercial opportunity whereas for the consumer providing word-of-mouth it is an act, a recommendation, without the prospect of financial benefit. A definition has been presented together with diagrammatic representation of the referral process, both of which were amended as a result of analysis of the research data. This conceptualism of the referral process is offered as something to be debated within the wider professional and academic communities.

Figure 9.1. The natural referral process (Source: original)



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## **Appendix 1: Practitioner reflections Chapter 1**

Accountants, bankers, chartered surveyors and solicitors enjoy the protection of The Limitation Act 1980 which restricts the time for civil or criminal claims, to be made within 15 years, the FCA permits claims against financial advisors without any long stop restriction. This has led to difficulties in buying and selling IFA practices. To illustrate the difficulties the absence of a long stop provision presents, during 2013, I received a letter from an insurance company inviting me to respond to a claim concerning a trust that was set up over 30 years ago. I had no real recall of the circumstances, no files to draw from, had not acted for the client in 29 years and the Financial Conduct Authority (FCA) did not exist 29 years ago, yet it was implied that I retained some measure of responsibility for the matter. It was a relief when the insurance company concerned decided that the claim was groundless as they found correspondence confirming the trust was necessary for corporate protection and that the trust had been sanctioned by the client's own lawyer. The insurance company informed the client that the claim had no substance having explained to the client that at the time the trust was created I was editor of Trust Matters, a quarterly technical journal, distributed across the company to provide advice on the usage of the different forms of trusts. Consequently, they surmised it was very unlikely that a trust would have been introduced without careful consideration and the agreement of the client. Ironically, it is usually the absence of a trust document that is a cause for complaint

## **Appendix 2: Practitioner reflections Chapter 2**

It does strike me as surprising that advisors are adopting the ideas of consultants seemingly without confirming that the strategies being promoted have been successfully operationalised. It is noted that some consultants are regularly cited by professional bodies which has led to a situation where advisor firms end up adopting identical client service propositions. This is somewhat curious as smaller businesses, lacking the resources to engage in meaningful marketing campaigns, usually seek to demonstrate their individuality in order to distinguish themselves from the market. Nevertheless, advisors appear willing to accept business strategies, conceived by consultants, rather than conceptualise their own client propositions. Consequently, it would be understandable if consumers struggle to see any difference between firms, operating in the same area operating with identical service models. However despite many firms adopting a similar approach to client service methods this does not appear to be deterring consumers.

I would like to acknowledge that, in the past, my client facing staff were encouraged to ask for referrals and I occasionally asked for introductions. However, we found, that in the main, clients were reluctant to provide names and/or wished to check with the third party before offering any introduction. On the rare occasion a name was provided they were usually contacted by telephone after a letter of introduction had been sent. The outcome appeared to largely depend on whether the prospect envisaged a financial need at the time we made contact since the offer of a financial review rarely seemed persuasive. I found making contact with a stranger challenging and I imagine it was also uncomfortable for the recipient. During my period as a technical training manager I had experienced what was described as sales training. The training included making cold calls to businesses under supervision. My role as a training manager required that I supervised trainee sales associates making cold calls and shared with them, what was then, accepted knowledge of how to develop a client base. At the time it was considered that networking within personal contacts, advertising (where budgets allowed) and making cold calls were the ways to source new prospects. More training time was spent on handling objections and understanding techniques like FAB (feature, advantage, benefit) in order to present



### **Appendix 3: Practitioner reflections Chapter 3**

It is not unknown for clients to refer an illustration, produced by an investment company, as a benchmark for measuring performance without disclosing the fact to their advisor. For this reason it is important that discussions over performance and risk are carefully handled, before a prospect becomes a client, to mitigate unrealistic performance expectations. Performance expectations are often managed by explaining the volatility of the proposed asset classes and by drawing from the past performance of similar/related asset classes, augmented by a form of stochastic modelling. Explaining the likelihood that a portfolio of assets to be in disequilibrium; falling, recovering and rising, usually without warning, prepares the investor to expect periods when asset prices will be falling and thus moderate expectations.

Clients of financial firms require sensitive handling and they may not wish to attend meetings with other clients in attendance. In the past we found that clients have raised concerns that their personal wealth may not be comparable with other attendees. Clients may not want to be associated with a financial advisor and importantly may not wish to risk meeting people they know at client meetings arranged by their advisor. Lastly, it is not unknown for clients to view the cost of marketing events to be an indulgence and worryingly for advisors they may question whether the fees they pay are appropriate if advisors can afford this type of marketing. All these concerns can be managed by careful handling but they do signal some of the complexities that need to be considered, in this field, before embarking on seemingly innocent marketing projects.

Acknowledging my bias in favour of independent advice it is regrettable that neither the regulator nor the leading professional bodies for advisors have elected to support independent advice over restricted advice. This is perplexing, but unsurprising, since insurance companies and banks have demonstrated a preference to sell their own products and their business model would be diminished if the FCA and professional

bodies were to recommend that consumers should favour independent advice over restricted advice.

Professional bodies are commercial in nature and the fees payable, by banks and insurance companies represent a significant income stream, arguably, ensuring that they will remain agnostic over the method of advice distribution. In practice, for consumers, this means that when utilising restricted advice they are likely to be channelled toward a product solution rather than receive independent advice. An IFA is free to come to the conclusion that no product is required or no action is necessary but the position for a restricted advisor is less certain. While restricted advisors now receive fees, for time spent on a client's affairs, it is possible they will be influenced by their employers to fashion an advice process likely to end in the sale of a product. Whether restricted advisors are permitted discretion or incentivised to provide advice that is wholly unconnected to a product is unclear but, it seems likely that those who employ restricted advisors would wish to control the parameters of the advice provided, since charging a fee for advice that suggests no action can still expose the employer to liability.

Evidence of the eagerness of employers to attract employees with a client base, who can generate new clients, is often found in the industry press, for example, [www.citywire.co.uk/new-model-advisor](http://www.citywire.co.uk/new-model-advisor) (18th March 2014) requesting that potential advisors should 'own a transferable client bank and be an individual who is keen to find new clients'.

## **Appendix 4: Practitioner reflections Chapter 5**

It was originally assumed that my practitioner background would be helpful in obtaining access to financial advisors. However, during preliminary discussions when advisors began to ask questions about my current role I sensed an undercurrent of concern over disclosing information to a fellow practitioner. In addition the sense was tangible that advisors were reluctant to devote time to assist with a research project. It should be made clear, that like many advisors, I receive a request to contribute to research virtually every day and survey fatigue must be a factor. Advisors complained that when they have contributed to surveys, in the past, they rarely see the results and derive no personal benefit in return for their time. Additionally, some advisors survey their clients as a matter of course and felt that their clients would not respond well to yet another questionnaire. It was also made clear that, despite providing assurances regarding anonymity and confidentiality, advisors were concerned that commercially sensitive information might accidentally be released. With hindsight my role probably hindered the thesis since advisors probably internalised concerns over commerciality when faced with a fellow practitioner. Again with the benefit of hindsight I suspect that, an academic researcher, with the credibility of a university business school, may have assuaged advisor concerns over confidentiality.

A consideration was to raise the profile of the research in an effort encourage data collection by authoring articles on referrals and new business capture in the advisor professional journals. An article was prepared, when I realised that, although the article would add to knowledge, in its present form, it was not providing advisors with a reason to participate as the article would not offer advisors a new method to attract business nor did it introduce solutions to the intractable problem of referrals. I was also concerned that any article would utilise elements of my research that were not yet fully formed and would lack credibility in the absence of the primary data. Advisors have busy, stressful lives that involve; juggling regulatory requirements, existing client work, preparing reports for new clients and importantly attempting to source prospective clients. It quickly became apparent that any suggestions I presented, in the absence of data, would be open to the same criticism I had levelled

at other non-academic reporting. I concluded, therefore, that it would be more appropriate, to wait until the data had been collected and analysed, since it would be premature and possibly counterproductive, to publish an article in the absence of any new, credible information. I assumed it would be beneficial if I could provide advisors with a reason to contribute to the research that would make commercial sense to them. This assumption was reinforced when advisors expressed cynicism over output unless it was tangible. This led me to focus attention on methods that would promote practitioner involvement.

## **Appendix 5: Practitioner reflections Chapter 6**

Perhaps unwittingly, by promoting consultants to speak at conferences and allowing the publication of work lacking peer review, professional bodies have positioned consultants as experts in the field. As previously observed consultancy providers largely rely upon assumptions and perceptions; it is, therefore, surprising that professional bodies are prepared to provide the oxygen of publicity for what are largely unsupported theories.

The Prudential, in a paper on referrals written in 2013, assume that asking for referrals is essential, that it works and IFAs have had appropriate sales training. This does indicate the level of misunderstanding that is in common currency among non-practitioners. Something to be considered is that product providers may seek to use their resources to influence advisors to sell their products by implying they have knowledge of value to advisors by encouraging practitioners to view them as some form of marketing partner. It is observed that when research is conducted by product providers their conclusions often seem to be favourable to them. By example when the research was conducted by the Prudential (2013) the conclusion was reached that referrals are more likely when a 'broad set of services' are offered to clients. In reality the 'services' appear to be a euphemism for life assurance products. Advisors have been influenced by product providers over many decades as internal sales training existed within banks and insurance companies, where large numbers of today's IFAs began their careers in financial services (as my interview data confirms). For example, during the 1980s, Allied Dunbar operated with over 6,000 self-employed advisors, described as sales associates, many of whom are the IFAs of today. Allied Dunbar managed a residential training centre for sales associates where sales training was practiced which emphasised the need to ask for referrals. New recruits were encouraged to contact friends and family members and to canvas consumers through cold calling.

However, with the demise of the direct salesperson and of independent advisors operating from within banks and life assurance companies, it is unlikely that newer entrants, intent on becoming financial advisors, will have experienced any formalised sales training, accordingly the sphere of influence once exerted by banks and life assurers is diminishing.

My own sales training, probably in common with most advisors, was not structured rather it was developed through experience and sharing ideas with others practitioners. Sales training is not offered by professional bodies and for IFAs who have already become chartered financial planners there is no requirement for any further examinations to meet regulatory standards. As the number of chartered advisors increases, other than through CPD and technical training fees, the revenue generating potential of professional bodies is reduced. This has led some professional bodies, like the CII, to develop joint ventures with universities to introduce academic qualifications targeted at members who have no further professional training needs. With this in mind the CII recently launched an 'MSc in Wealth Management' which is described as 'enabling advisors to continue acquiring the technical skills and theoretical knowledge needed for a successful career in wealth management' (CII,2014). It is noted that the programme appears to associate the key drivers of success as being cognitive yet, without the skills to attract prospective clients, no amount of technical training will ensure a 'successful career'. The focus on technical training overlooks the importance of marketing and the development of interpersonal skills which seem to be vital in building client relationships. As professional bodies have no direct experience of how to start and develop a practice, perhaps, it is unsurprising that they elect to take this path. Arguably, training in marketing, report writing, interviewing and managing a business are of more importance to entrepreneurs yet, the focus of training from professional bodies is mainly cognitive. This is a surprising gap in portfolio of services provided by professional bodies since sole traders and smaller enterprises, who form the majority of IFA firms, arguably, would value guidance in both non-cognitive and cognitive areas.

## **Appendix 6: Practitioner reflections Chapter 8**

The persuasive influence of the life assurance industry appears to be waning, following the introduction of RDR, since product providers can no longer provide inducements and corporate entertainment; consequently this has encouraged them to seek alternative methods of product promotion. This has led some product providers to introduce courses and seminars advocating methods of developing a successful advisory practice and advisor-client relationships. The origins of this guidance is usually unspecified, seemingly based on claims of experience gained from engagement with IFAs or a survey of advisor attitudes, when in reality, most providers only have limited administrative contact with advisors. Despite these shortcomings and the diminishing numbers of broker consultants, (employees of life companies who provided face to face support for financial advisors), IFAs attend product provider seminars because CPD points are on offer. On the rare occasions that speakers are chosen from the advisor community, they tend to be supporters or members of the body organising the event. It is observed that the commercial or academic achievements of the speakers, justifying their inclusion, are seldom publicised or disclosed.

## Appendix 7: Practitioner reflections Chapter 9

### Developing a practice

My experience is that most IFAs could do with more activity and should meet with as many potential clients as they can as one never knows the outcome until a discussion has taken place. Indeed, sales managers in the 1980s would audit the activity of advisors, using diary management, encouraging those with less than five prospect meetings diarised each week, to work harder at prospecting. My own rule of thumb was to maintain a prospect list of 30 names, highly visible for all staff to see, on a white board. When a prospect became a client I would cross out the name on the board, give myself a pat on the back, and attempt to find a new prospect.

Eventually, all client facing staff followed this idea which provided management with a transparent, motivational, method of measuring activity levels. Quite simply if prospect numbers were low so would be future revenue. This simple, transparent, process focused the advisors on sourcing new (qualified) prospects ensuring a ready flow of people to speak with. Inevitably a point is reached, for all successful advisors, when no new clients can be taken on, necessitating the delegation of existing clients to other advisors. This process enables an IFA practice to grow particularly if each advisor is required to retire the bottom 10% (by asset value) of clients each year. These clients can then form the embryonic client base for developing advisors and facilitate a cycle of organic growth. The enforced delegation of clients ensures that fee income will rise, as advisors are required to replace 10% of their clients each year, increasing the per capita asset value, while encouraging advisors to contribute to corporate growth and maintaining their prospecting skills and reducing any complacency that can develop without revised annual targets.

### Mailing Lists

The explanations from A17i & A6i do indicate some knowledge of lead generation schemes which raises the possibility that the advisors choose not to acknowledge usage of programs, they found to be ineffective, particularly to fellow practitioner. Whilst I have not personally purchased a referral program, during the period when I was engaged in seminar marketing, I did purchase numerous mailing lists. I found the lists very useful as they allowed me to identify and reach new prospects in



geographical locations that I was unfamiliar with. My experience is that mailing lists of postal code districts, containing a significant number of properties valued in excess of one million pounds, were more effective than shareholder and lists organised by occupation. It was found that the occupants of expensive property were more likely to have non-property wealth whereas consumers with higher incomes and ownership of company shares were not found as reliable a source of additional wealth.

### Advertising

I found to my cost, during the early development of my own practice, when I advertised in national newspapers, that many respondents lived outside my practice catchment area and that I had misjudged the numbers of respondents. I quickly realised that a more focused, local, approach was necessary; one where, to some degree, the number of respondents could be anticipated. A greater concern was the prospect of the reputational damage that might flow from not meeting the expectations of the respondents. The problem of achieving growth with limited resources is accentuated when demand cannot be foreseen and certainly makes national advertising problematic for firms without a national coverage

### General observations

It is not uncommon for managers, in larger practices, to have limited experience of client work or to find that they have been unsuccessful in client generation and sought refuge in an administrative role. Arguably, advisors who seek to become managers, or managers who have not been client facing, may seek to distance themselves from day to day client involvement, which can lead to unrealistic expectations of new client generation and a misunderstanding of the realities of advisor-client relationships. One possibility is that this has led to an acceptance that unproven ideas are worthwhile. Perhaps it is the absence of alternative marketing ideas that encourages this behaviour. It is unusual to find managers who are better remunerated than successful client facing staff, unless they are owners of a practice, because the growth in a firm's advisor numbers has necessitated the owner changing roles. One issue associated with growth is that the enhanced administrative burdens require skills which may not align with the skillset of the founding entrepreneur.

My experience is that IFAs do not embark on networking with any relish as it is perceived to be a form of prospecting that is akin to asking for a referral and that it is not something that professionals should be engaging in. The maturity of a practice clearly offers greater potential for client referrals as it is expected that an established firm would have more clients available to refer. However, as the trend in recent years has been to reduce client numbers while increasing the asset value per client, the number of clients available to refer, per advisor, has been diminishing. For example, my own client numbers rose to 250 before I reduced them to 50 because the complexity and servicing requirements for investors with substantial assets became more onerous.

Advisors are often find themselves acting for consumers older than themselves, hence they may find difficulty in relating to the fears and concerns of consumers approaching or into retirement, particularly when the advisor is likely to be accumulating wealth whereas the client may be de-accumulating. This can lead to the situation where clients are retiring holding assets more suitable for a younger investor and consequently face a reliance on capital growth to produce income in retirement. Whilst an absence of attention to portfolio performance may be the preferred position of some advisors, it would seem likely that clients, particularly mature investors, will be reviewing performance at least annually, in order to make decisions over expenditure, and will have regard for investment performance more frequently than the five year period suggested by Buttercase (2014).

Over the past twenty years advisors have significantly reduced reliance upon life assurance companies as the emphasis has shifted toward collective investments such as unit trusts, investment trusts, open ended investment companies (Oeics) and other, newer, structures like exchange traded funds (ETFs). This has led advisors to become more reliant on their own research with many electing to outsource investment management to mitigate the onerous compliance requirements that accompany the provision of investment advice. This evolution has created something of a vacuum, as the support that was provided by the life assurance industry has not been filled, leading many advisors to report a sense of being

isolated and relatively friendless. This melancholy is exacerbated by a regulatory environment that is perceived to be hostile and the absence of a dedicated trade body, to the extent that IFAs find themselves relatively powerless having to rely on lobbying from agencies who are not totally sympathetic to cause of independent advice.