**The application of the results of interconnectedness typology in a triadic relationship**

**Introduction**

This paper aims to explore the results of interconnectedness in a triadic relationship between a long-term savings and investments provider, Independent Financial Advisers (IFAs) and customers. Smith & Laage-Hellman's (1992) typology of the results of interconnectedness was used to analyse this triadic relationship. This study was conducted in collaboration with one of the UK’s largest long-term savings and investments providers. As a substantial proportion of the company’s business is conducted through IFAs, they are one of the most important stakeholders in the company’s business relationship. Indeed, the majority of sales in the long-term savings and investments industry in the UK are realised through IFAs. Within the UK pensions market IFAs keep a 90.0% market share in the individual market and a 82.0% share in the group market (Datamonitor, 2013). Academic studies (Gough & Nurullah, 2009; Gough, 2005) have indicated that IFAs are the strongest distribution channel in the industry. Conceptual studies of triadic business relationships are scarce in marketing and organisational research (Blankenburg & Johanson, 1992; Havila, Johanson, & Thilenius, 2004; Ritter, 2000). Although, applicability of a triadic relationship has been tested in a number of case studies (Andersson & Mattsson, 2004; Cunningham & Pyatt, 1989; Jaaskelainen, Kuivalainen, & Saarenketo, 2000; Narayandas, 2002; Odorici & Corrado, 2004; Pardo & Salle, 1994; Trimarchi, 2002), to the best of the authors’ knowledge, a study that explores the results of the interconnectedness in this triadic relationship has not been established. Furthermore, the regulatory environment which continues to face change such as the recent implementation of Retail Distribution Review (RDR) on 1st January 2013 will make the relationship more rather than less complex. Due to the RDR implementation, advisory and product provider firms have evaluated their business models and made the necessary changes to meet these requirements. Thus, by analysing the results of the interconnectedness in this relationship, recommendations that can increase the relationship performance can be proposed.

**Literature review**

Major relationships between a company and its suppliers, customers, and other parties have been found to be connected in the sense that what is happening in one relationship affects the interaction in others (Blankenburg & Johanson, 1990, cited in Håkansson & Snehota, 1995; Ritter, 2000; Smith & Laage-Hellman, 1992). This interconnectedness is known as secondary, indirect or network function of relationships (Håkansson & Snehota, 1995; Smith & Laage-Hellman, 1992). Thus, when studying a network of relationships, researchers have to consider the influence of other relationships to the main relationship that is being researched (Tjandra et al., 2013). The description of a network relationship also reflects the situation in the UK’s long-term savings and investments industry in which the majority of its sales are generated through IFAs. In a triadic relationship, a third actor is added to a dyad. A business triad is defined as a network of three independent actors connected to each other by a direct relationship for the purpose of doing business (Tähtinen & Halinen-Kaila, 1997). A triad is “transitive” which means that each of the three actors has a direct connection with each other (Madhavan et al., 2004). Therefore, a triad is more than its constituent dyads because relationships influence each other and the dynamics in the triad are the result of changes in the dyads (Komulainen et al., 2005). Based on this premise, this study aims to explore the results of the interaction between the collaborative company, IFAs and customers by applying of Smith and Laage-Hellman’s (1992) typology of the results of interconnectedness in the relationship. The analysis of these transformations can give the actors options on how to transform or improve the dynamic of the relationship the relationship. The typology recognises five transformation patterns: *combination, bridge, by-pass* (*avoidance* and *flanking*), *displacement, separation* (*elaboration* and *blocking*) (Smith & Laage-Hellman, 1992).

*Combination* is a situation where a focal organisation chooses to source resources and coordinates activities with a second organisation in the context of their relationship with a third member of the network. For instance, intermediaries such as IFAs are considered as the actors who economize on interaction costs by specialising in handling a large number of transactions on behalf of buyers and sellers (Alderson & Martin, 1965). Both customers and companies may find it more advantageous to involve intermediaries in approaching and generating sales from customers. The second pattern, *bridging,* happens when a focal organisation decides to use another network member as a channel, a facilitator or an influencer in their relationship with a third actor. The principle for bridging is that the second party has a connection with a network member in whom the focal organisation is interested, but to whom it is not connected or with whom it has an inadequate relationship. Customers can reduce the number of business ties with suppliers and benefit from specialist knowledge by using intermediaries. For instance, instead of dealing with many different long-term savings and investments providers, customers can just deal with one IFA who looks after their financial planning. From the company’s perspective, using intermediaries can create savings because it is costly to manage customers individually (Jensen, 2010). Nevertheless, this may give the intermediary some power because it now holds the interface between the customer and supplier (Mudambi & Aggarwal, 2003).

The actors in the triads must co-operate and co-ordinate their efforts to have an effective relationship, but sometimes they also compete with each other (Holma et al., 2009), which leads to the occurrence of a *by-pass* pattern. A *by-pass* pattern happens when a focal actor wants to change an indirect relationship into a direct relationship by by-passing an existing direct relationship. There are two types of by-pass: *avoidance* and *flanking*. *Avoidance* happens when a supplier bypasses an intermediary in order to improve the quality of his information relating to the end user’s specification. *Flanking* occurs in two steps. The first step is direct interaction between two actors previously indirectly connected. The second step is interaction between the newly connected actor and the linking actor. Some may argue that providers should turn directly into the end users instead of using middlemen or intermediaries. However, contacting the customers directly, can disturb the relationship between the supplier and the intermediaries. Intermediaries may feel that their customer relationships are threatened (Gummesson, 2002; Jensen, 2010). This situation may lead to the occurrence of a displacement pattern, which happens when an existing dyadic relationship is interrupted by a third party. Whilst in by-pass, all three relationships are present at the start and at the end of the episode, in displacement a new relationship is being formed and an existing one ended. *Separation* occurs when a focal actor changes an existing direct relationship to an indirect one. There are two types of separation, elaboration, and blocking. *Elaboration* happens when a third party is introduced to the supply channel as a middleman, such as when the company’s direct customers decide to involve an IFA in their relationship. *Blocking* happens when a barrier is erected to the unobstructed flow of network resources between indirectly connected parties. For instance, when there is a lack of trust in the relationship, intermediaries may protect their business by withholding information and blocking personal contact between the supplier and the end customers.

**Research methods**

A case study research method was employed for this study as it provided the author with a means of investigating a new phenomena which included: “a large range of factors and relationships; no basic laws to determine which factors and relationships are important; and, an opportunity to observe directly the factors and relationships” (Fidel, 1984, p. 273). Because of the complexity of the relationship (Dubois & Gadde, 1999; Easton, 2010; Yin, 2009) between the collaborative company, IFAs and customers, a case study method is considered as the most appropriate approach to be adopted in this study. More specifically, a retroduction approach is adopted in this research. “Retroduction involves moving from an original conception of a particular phenomenon to a conception of a different kind of thing (power, mechanism) that could have generated the given phenomenon” (Lawson, 1997, p. 236). Based upon the retroductive approach, this research was divided into two, an exploratory stage and an explanatory stage. The aim of the exploratory research was to gain an understanding about the nature of the long-term savings and investments industry and its offerings and explore the nature of the relationship between the collaborative company and its stakeholders. The sources of data used for the exploratory research were the collaborative company’s market research data aimed at customers and IFAs and six one hour unstructured interviews with the company’s senior managers and employees. The main sources of data used for the explanatory stage were four one-hour semi-structured interviews with the collaborative company’s senior managers, nine one hour semi-structured interviews with IFAs, and discussion with customers in the collaborative company’s online community. All of the exploratory and explanatory data were stored and managed using NVivo 9 software and thematic analysis was adopted to analyse the data. The findings are divided into three main themes that emerge from the data analysis as explained below.

**The commitment in delivering service to customers**

Both IFAs and the collaborative company recognised the importance of working together in delivering services to customers. Whilst the collaborative company has a role of providing and delivering products for the end customers, the IFAs incorporate extensive financial advice to the collaborative company’s offerings. As suggested by the one of the IFAs *“They need us, we need them” (IFA 7).* This situation portrays Smith and Laage-Hellman’s (1992) *combination* pattern. In this situation, the combining actors (i.e. the collaborative company and the IFAs) are required to have mutual commitment and create *“a win-win situation, [so that] if they are more successful then we will become more successful”* *(Senior Manager 5).* As proposed by Gummesson (2002), suppliers can choose their mission to be “helping customers to do business with their customers” (p. 79).

Despite the IFAs’ “independent mind” and access to develop a relationship with available providers in the market, they only had a relationship with few selective providers. These providers were those who were often recommended to their customers. Therefore, in order to assure the smoothness of the service delivery, they are likely to maintain an active and closed relationship with the collaborative company. The relationship with the collaborative company will become more important if the end customers are the IFAs’ active or high-net-worth customers. The IFAs also emphasised that they expected these providers to maintain good communication with them and would be keen to get involved in helping them to develop new propositions or strategies, “*because we are the guys on the ground and we are the guys who know what the customers want and what the customers are looking for” (IFA 9).* The IFAs’ ability in understanding customers’ needs, providing advice, and choosing the most appropriate providers from the whole market portray their role as the integrators of the collaborative company and customers’ activities and communication in the value creation process. This shows that the role of the IFAs in this triadic relationship is more than a distributor (Bergen et al., 1992) or a provider (Blois & Reynolds, 2000).Their knowledge and skills make them become specialised middlemen who add value in their own right (Geersbro & Vedel, 2008). This situation also shows that the IFAs *bridge* the relationship between the collaborative company and the customers by facilitating the relationship and influencing the customers’ choice of providers (Smith & Laage-Hellman, 1992).

**The failure in delivering service to the end customers**

The findings also emphasised that if the collaborative company disappointed the IFAs or there was a communication break-down between them and the collaborative company, it could negatively affect the service received by the end customers. Consequently, their dissatisfaction could have a negative effect on the relationship between the customers and the IFAs, especially because the IFAs had been the customers’ main point of contact. Customers’ dissatisfaction caused by the collaborative company’s delivery failure could raise a tension in the relationship between the collaborative company and IFAs. Despite the IFAs’ remark about providers’ failure in delivering service to them, the collaborative company stated *, “rather than saying to the clients that let me discuss this with [the collaborative company] and see how quickly we can do it, they kind of set the expectation for us and then we were kind of at their mercy” (Senior Manager 4).* Thus, the IFAs would be unhappy when their expectation was not met. This situation may make the IFAs leave the collaborative company and choose another provider whom they know well and trust to deliver their expectation. The IFAs’ decision of replacing the collaborative company with another provider to handle their customers’ business reflects Smith and Laage-Hellman’s (1992) *displacement* pattern. As suggested by one of the IFAs *“They badly handled few things which made me loose a couple of clients. I then used them occasionally but not very often unless they do something different, then I will need to see whether I can go back to that” (IFA 9).* If the customers are satisfied with the IFAs’ service and the recommended products, it is more likely that the IFAs will have a positive relationship with the end customers. Consequently, this relationship will have a positive effect on the relationship between the IFAs and the collaborative company (Tjandra et al., 2013). This situation is likely to occur because end customers have delegated all relationships to the intermediary (Smith & Laage-Hellman, 1992). Nevertheless, if the end customers were not satisfied with the offerings which involved the collaborative company’s product it could cause a “friction” in the relationship between the collaborative company and the IFAs, regardless of whether it was caused by the IFAs or the collaborative company. Accordingly, this may result in the *displacement* of the IFAs by the end customers or the *displacement* of the collaborative company by the IFAs (Smith & Laage-Hellman, 1992).

**The trust in the triadic relationship**

It was identified that once the IFAs introduced the collaborative company to the customers, both the company and the customers had the opportunity to develop a relationship. Customers who were not satisfied with the IFAs’ service were also more likely to seek assurance from the collaborative company or other providers in general. As suggested by one of the customers, *“where there is an opportunity for good commission he seems to find time to grab a good slice of my funds”.* Therefore, he expressed his wish that “*If there was a direct route where you did not ‘lose’ the commission this would be most welcome”* *(Customer 2).* A situation where the end customers seek advice from both the collaborative company and the IFAs resembles the *flanking* pattern (Smith & Laage-Hellman, 1992). Although it may not be appreciated by the IFAs, by doing this, the customers may be able to influence the IFAs’ choice of products or recommendation to them. Thus, when the customers or the collaborative company’s attempt to exclude the IFAs from the relationship, *avoidance* pattern occurs in a relationship (Smith & Laage-Hellman, 1992). In this situation, the intermediaries may think this practice is an attempt to steal their customers despite their efforts in developing the relationship. In this particular case study, the collaborative company’s direct business was seen by the IFAs as its preparation for the RDR because of the prediction that the number of IFAs would decline significantly. Consequently, the company’s attempt of approaching the intermediated customers, could make the IFAs become very protective and *block* any communication that occurred between the collaborative company and the customers (Gummesson, 2002; Smith & Laage-Hellman, 1992). As stated by one of the IFAs, *“you always want to cocoon the clients so that they become reliant on you and they can never go anywhere else*” (*IFA 6).* Furthermore, the IFAs could also become very suspicious of the collaborative company and accuse them of trying to steal their customers: *“The intermediary is very protective about the customer relationship because if the customers want to do anything else the intermediary wants the opportunity to earn more money. So the intermediary is very reluctant to have a company like [the collaborative company] have access to the end customers” (Senior Manager 2).*

Despite the customers’ desire to pursue a relationship with the collaborative company, approaching the end customers or “overtly” promoting products to these customers could jeopardise the relationship between the collaborative company and the IFAs. The IFAs’ lack of trust in the company could result in the termination of the relationship and the IFAs could assign all of their customers to a new provider, in other words, *displacement* of the collaborative company by the IFAs (Smith & Laage-Hellman, 1992). As explained by one of the IFAs who used to work for the collaborative company *“We would try to go after the pension scheme, the IFAs would phone and they argued that we were against them. Our manager told us to back off.” (IFA 4).* It is noted that in most cases the motive behind a direct approach or a by-pass by supplier, such as the collaborative company, to the customers or vice versa is not based on the desire to confer mutual advantage to all parties and maintain the status quo. Rather, it is a means of weakening the position of the intermediaries, such as the IFAs (Smith & Laage-Hellman, 1992). This is likely to happen when both the provider and end customers see the intermediaries as added costs (Smith & Laage-Hellman, 1992). Nevertheless, the attempt of weakening the IFAs’ influence in this triadic relationship can jeopardise the relationship between the collaborative company and IFAs and consequently reduce the collaborative company’s access to the customers.

## Conclusion and managerial implication

By applying Smith and Laage-Hellman’s (1992) typology, this study has identified that combination, bridging, displacement, avoidance and blocking patterns occur in this triadic relationship. The first theme of this discussion highlights that all actors are dependent on each other and both the collaborative company and the IFAs are committed in delivering exceptional service to the end customers. Nevertheless, the failure of delivering the desired service to customers may result in avoidance and displacement patterns. When the collaborative company and the end customers pursue a more exclusive relationship, it can result in flanking, avoidance, displacement and blocking patterns. As the IFAs do not only hold the interface between the collaborative company and the customers but also add value to the company’s offerings and reduce the company’s cost in maintaining the customers, by-passing the IFAs may negatively affect the collaborative company’s future businesses and reputation amongst the IFAs. If the collaborative company insists upon pursuing the passive customers, it is necessary to discuss the plan with the IFAs prior to the implementation and agree on a practice of which will benefit both parties. Nevertheless, the findings also suggest that the customers are likely to approach the collaborative company when they are not satisfied with the IFAs’service. Therefore, in order to ensure an exclusive relationship with the end customers, the IFAs need to ensure that they add and consistently deliver irreplaceable value to the service they provide to the customers as well as the providers.

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