**Exploring the power and influence of intermediaries in an intermediated relationship: A case study from the UK financial services industry**

**Introduction**

This paper aims to explore the power and influence of intermediaries in an intermediated relationship between a long-term savings and investments provider, Independent Financial Advisers (IFAs) and customers. IFAs have a very important role in the UK long-term savings and investments industry as more than three-quarters of the sales in this industry are generated through them (Datamonitor, 2012). Consequently, they have been recognised as the strongest distribution channel in the industry (Gough & Nurullah, 2009; Gough, 2005). Despite their importance, there has been very little research investigating the extent of their power and influence in this intermediated relationship. This study does not only contribute to the knowledge gap within intermediated channel research but is also beneficial for the long-term savings and investments industry as well as other industries in which intermediaries play a key role. A case study research method conducted in collaboration with one of the largest UK long-term savings and investments provider was adopted for the purpose of this study.

**Literature review**

Intermediaries can be described as all the firms between the provider and the end-customers. Historically, the concept of an intermediary referred to “a traditional channel structure with a vertically integrated manufacturer, a wholesaler, a retailer and an end customer” (Alderson, 1954,1965 cited in Jensen, 2010, p.197). Nevertheless, recently it has become more likely that the intermediary level consists of more specialised firms providing a range of services (Jensen, 2010; Wu, 2004).

There are three possible roles of intermediaries, as a distributor, provider or integrator (Geersbro & Vedel, 2008). The research on intermediated relationships has been dominated by a dyadic supplier perspective which perceives intermediaries as distributors (Frazier, 1999; Gadde & Snehota, 2001). The role of intermediaries as distributors is emphasised in the agency theory. In this theory, intermediaries are considered as the agents and the manufacturers are considered as the dominant party (Antia & Frazier, 2001). Therefore, when the role of intermediaries is as a distributor, they have a closer relationship with the suppliers than with customers. Another research stream on intermediated relationships suggests that intermediaries are the buyers’ providers. This research stream is inspired by the consolidation of intermediaries and growth of retailers’ power (Blois & Reynolds, 2000). Thus, this research stream suggests that intermediaries only add value if they represent the buyers and solve their problems. If intermediaries do not add value, they are of no use to buyers and consequently are of no use for suppliers (Anderson & Anderson, 2002). Thus, when the role of intermediaries is as provider, they have a closer relationship with the end customers than with suppliers.

A third position of intermediaries as being “the man in the middle” seems less obvious in channel research (Geersbro & Vedel, 2008, p. 3). The position of intermediaries as middlemen is portrayed in their function as traditional traders. Nevertheless, their position as middlemen is also portrayed in their position as modern intermediaries (Geersbo & Vedel, 2008). Modern intermediaries are seen as important actors in the co-ordination of complex logistical arrangements in modern distribution (Dubois et al., 2003; Gadde, 2004; Hulthén & Gadde, 2007). According to Geersbro & Vedel (2008) intermediaries may not only be the “hired hand” of the supplier or the distributor but a specialised middleman adding value creation in his own right (p.3). Intermediaries act not only as coordinators of logistics, but possibly also as integrators of buyers’ and suppliers’ activities and communication in the value creation process. In this relationship, they do not only mediate exchange between the customers and suppliers but function as a connector (Rosenbröijer, 2001). As indicated by (Gordon, 1998) intermediaries have a fundamental role in the channel relationship because they hold access to the customers; add value to the supplier’s products; help to create new values with customers; and reduce the supplier’s costs of maintaining customers.

The balance of power in a network of relationships has various implications for management (Zolkiewski, 2001). It is common to find that intermediaries have the greatest power in the channel because they hold the interface between the customer and supplier (Mudambi & Aggarwal, 2003). Power refers to one member of the channel exerting influence over another (Donaldson & O’Toole, 2007). It often affects how partners behave (Egan, 2001) and has the ability to influence the strategy. It is closely related to the interdependence of partners in the relationship. The more others are dependent on a firm, the more power the firm has over them (Huang & Wilkinson, 2006). Furthermore, actors’ unique and highly valued resources and competencies (capabilities) are also the source of influence and power (Cendon & Jarvenpaa, 2001; Ford et al., 1998). A channel controller, who holds the greatest power and does not hesitate to exercise it, has the ability to forcefully control the channel for their own benefit and stipulate policy to other members (Donaldson & O’Toole, 2007). Therefore, power is sometimes seen to have a negative influence in developing an effective relationship (Doney & Cannon, 1997; Naudé & Buttle, 2000). Nevertheless, it is also posited that power has a negative influence on the relationship only if it is exercised and has a punitive characteristic (Geyskens et al., 1998,1999; Kumar, 2005). Punitive action can be reduced if there is mutual dependency in the relationship which will result in the development of trust and commitment (Kumar, 2005). The buyer’s dependence on the supplier is a source of power for the supplier, and vice versa (Ahtonen & Lintukangas, 2008; Caniëls & Gelderman, 2007; Emerson, 1962; Ford, Gadde, Håkansson, & Snehota, 2006). This means that if a supplier depends on a buyer more than the buyer depends on the supplier, and then the buyer has power over the supplier (Ford et al., 2006; Pfefer, 1981).

Buyer’s dependence is based on the size and composition of the available pool of trading partners. A small pool of suppliers restricts reselection and buyer flexibility (Hart & Saunders, 1997). This increases the relative dependence of the buyer upon a particular supplier and provides the supplier with a greater degree of power to influence the buyer. Factors that can effectively limit the size of the supplier’s pool is a supplier’s investment in capital or human assets dedicated to providing products or services specific to a particular buyer. This is based on the assumption that if other suppliers have not made similar investments, the investments effectively reduce the size of the supplier pool by restricting the number of alternative suppliers from which a buyer can reselect a trading partner (Williamson, 1975, 1985). Thus, it can be suggested that the buyer’s power can be reduced when the supplier is able to provide offerings that the buyer cannot find anywhere else. As mentioned by Medcof (2001), the more important the resources controlled by the actor, the more other actors will be dependent upon it, and consequently the greater will be its power over those other actors. This is because the relationships between buyer and supplier are based on the relative utility and the relative scarcity of the resources that are exchanged between the two parties (Cox et al., 2004).

Supplier’s dependence is based on the percentage of sales revenue from a particular buyer and the ability of the buyer to reselect another supplier (Emerson, 1962). Buyers are typically more powerful in a buyer-supplier relationship because of the supplier’s greater dependence on the revenue generated from the buyer (Hart & Saunders, 1997). The large pool of suppliers provides the buyer with an ability to influence supplier behaviour because of the availability of alternative suppliers that can fulfil the buyer’s needs or desires. As the majority of the collaborative company’s sales are generated through the IFAs, it seems that the IFAs hold the power in their relationship with the collaborative company. Thus, the explanatory research further investigated the balance of power in this relationship and identified the implication of this power structure to the investigated phenomenon.

It is stated that power imbalance or asymmetry within a buyer-supplier relationship can lead to an unproductive partnership (McDonald, 1999). This is because in the long term the position of the weaker partner can be eroded too much and the partnership will be destroyed. Power imbalance can result in less cooperation and greater conflict (Anderson & Weitz, 1989). Nevertheless, it is also recognised that power in a relationship is rarely symmetrical which means each party has the same amount of power. Rather, power in a relationship is often asymmetrical in which one party is weaker (Gummesson, 2002). The reason that this relationship exists is because there is no better alternative for the weaker party. It is important to note that unbalanced power does not automatically involve actual misuse of power (Provan & Gassenheimer, 1994). Instead, power imbalance can be used as a tool to promote supply chain integration and encourage a high level of performance (Maloni & Benton, 2000).

An asymmetrical power structure is not a barrier to develop a relationship if a provider has something a buyer wants or suppliers view that they may profit from the situation (Hingley, 2005). It is further pointed out that in an asymmetrical relationship, both parties can generate trust and commitment from each other when both parties treat each other fairly (Kumar, 2005). Treating each other fairly can generate trust as each is interested in the other’s welfare and that neither will act without first considering the impact of their action on their partners (Kumar, 1996). Despite the importance of the IFAs, studies which investigate how to create an attractive long-term savings and investments brand for the IFAs are scarce. Therefore, the following section reviews the literature on developing a strong brand in the context of the IFAs.

**Research methods**

“A case study is an empirical enquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2009, p.18). Because of the complexity of the relationship (Dubois & Gadde, 1999; Easton, 2010; Yin, 2009) between the collaborative company, IFAs and customers, a case study research method is considered as the most appropriate method to be adopted in this study. Furthermore, this method allows the authors to understand a real-life phenomenon in depth, without excluding important contextual conditions which makes the study become more relevant and meaningful. The sources of data used for this study were the collaborative company’s market research data aimed at customers and IFAs, in-depth interviews with nine of the collaborative company’s senior managers and nine IFAs and a discussion with nine of the company’s intermediated customers. The use of different sources of data can create a consensus which can help the authors to understand the reality explored in the study. This is especially important in case study research as it aims to obtain a holistic view of a specific phenomenon or series of events (Gummesson, 2000). All of the exploratory and explanatory data were stored and managed using NVivo 9 software and thematic analysis was adopted to analyse the data.

**Findings and discussion**

All of the interviewed IFAs and senior managers point out the importance of the IFAs’ independence and how they do not want to be dictated by the providers. The IFAs do not want to be perceived to be the collaborative company’s distributors or retailers, they have an *“independent mind, they can recommend [the collaborative company] or they can recommend somebody else”* *(Senior Manager 5).*

Both the IFAs and senior managers also indicate that the IFAs hold the power in the relationship. This is because they generate most revenue for the collaborative company and other providers (Hart & Saunders, 1997). One of the managers illustrated that the collaborative company could *be “a bit at their mercy of who they choose to place a business with” (Senior Manager 4).* If they were not happy with a certain provider, they could easily change to another provider and possibly move all of the customers to the new provider and justify their options to the customers:

*“The bottom line if their products are the most suitable for my customers then I will do it [assign the clients to a certain provider] but there is so much choice really, especially within the retirement and long-term savings market. But I can justify giving it to another provider because I know them, and their service is good and I know that if there is a problem with a particular client situation I will be able to speak to that provider” (IFA 1).*

The findings above illustrate that because there is little differentiation in terms of the offerings proposed by the providers in financial services industry (Howcroft & Durkin, 2003; Paswan, Spears, Hasty, & Ganesh, 2004), providers become more dependent on the IFAs and it is more difficult for the providers to sustain the IFAs’ loyalty. As suggested by previous studies (Hart & Saunders, 1997; Medcof, 2001; Williamson, 1975, 1985), buyer’s dependence can be increased if there are only a small number of suppliers offering similar propositions. The senior managers also add that ultimately, the collaborative company has to continuously support the IFAs’ business and come up with the best products and charges. These findings confirm Gummesson's (2002) suggestion that the most appropriate strategy for suppliers working in an intermediated channel is to help intermediaries to do business with their customers. Nevertheless, despite the providers’ efforts, all of the interviewed IFAs highlight that somehow they still feel that the many providers do not understand their business model and many of their offerings are irrelevant to their business. Consequently, although the IFAs have access to all of the providers in the market, all of them only deal with a selected number of providers, which are recommended to their clients regularly.

In this intermediated relationship, the IFAs hold the interface and become *“a buffering system” (IFA 1)* between the providers and intermediated customers. Most interviewed IFAs would not allow the providers to contact their customers directly and providers are “*not encouraged to go near the IFAs’ customers” (Senior Manger 6).* If the providers insist on pursuing a relationship with the customers, the IFAs will not hesitate to assign their business to a different provider. Contacting the customers directly can disturb the relationship between the supplier and the intermediaries. Intermediaries may feel that their relationship is threatened and consequently they may protect their business by withholding information and blocking personal contact between the supplier and the intermediated customers (Jensen, 2010; Tjandra et al., 2013).

All of the interviewed IFAs and senior managers agree that the IFAs have a very strong influence on the intermediated customers’ decisions. Most of the time, the intermediated customers placed their trust in the IFAs and relied on their advice. The intermediated customers are described as people who *“are not interested in their finances. They want to make sure that it runs properly and efficiently, but they don’t want to deal with it” (IFA 2).* The intermediated customers’ lack of interest is the main reason that they employ IFAs. One of the senior managers adds that if the IFAs recommend different providers to the customers, they “would be probably receptive towards their suggestions but not distinguishing between them” *(Senior Manager 2).* Furthermore, *“Because it is an advised product mostly. So, if IFAs don’t rate us, they won’t advise their client to buy from us. So, yes, the balance of power is definitely with the IFAs”* (Senior Manager 4).Therefore, the IFAs suggest that because of the intermediated customers’ dependency on their advice, the influence of the provider to the intermediated customers are weaker in comparison to the customers who deal directly with the providers. All of the customers who are involved in the discussion also confirm the strength of the IFAs’ influence on their perception and opinion *“I have had the same financial advisor for well over 10 years…From memory [the collaborative company] was described as a solid firm with good performance. It gave me a certain amount of trust in [collaborative company]” (Customer 1).*

An IFA points out that because of the complexity of long-term savings and investments products and unclear communication messages delivered by the providers, the customers are more likely to seek an explanation from the IFAs. She believes that *“providers have a different language to communicate with clients which is adhering to what the FSA [Financial Services Authority] tell them what to say”* *(IFA 5)*. On the other hand, she adds, the IFAs would clarify and fully explain this information to the customers. In addition, almost half of the IFAs also highlight the majority of providers are associated with a negative connotation because of the mis-selling issue. Therefore, they believe that because the customers do not have a good impression of the industry and the providers that they would deal with, they are likely to seek IFAs’ advice. Thus, it is suggested that an endorsement from the IFAs who are considered as the expert in the industry can give the customers confidence and assurance in selecting the providers.

**Conclusion**

Based on the analysis of the findings, it can be suggested that the IFAs are independent middlemen with specialised skills that add value in their own right and hold the strongest power in the intermediated relationship. Although, the collaborative company, the IFAs and the customers are dependent on each other, the dependency of the collaborative company and the customers on the IFAs is higher than the dependency of the IFAs on the other two actors. Once the relationship is established, the collaborative company is dependent on the IFAs in terms of acquiring new customers who need more complex advice and are more likely to be high-net-worth customers. At the same time, the customers are dependent on the IFAs in terms of getting non-biased or independent financial advice which is not offered by the collaborative company. Nevertheless, the IFAs’ power has a negative influence on the relationship only if it is exercised and has a punitive characteristic (Kumar, 2005; Geysken et al., 1998, 1999). For instance, when the IFAs are unhappy with the collaborative company’s or other providers’ decision or policy, they can exercise their power by assigning the intermediated customers to another company. It has been suggested that punitive action can be reduced if there is mutual dependency in the relationship which will result in the development of trust and commitment (Kumar, 2005). Therefore, to increase the effectiveness of this intermediated relationship, the collaborative company must aim to develop a mutual dependency. The IFAs’ dependency on the collaborative company could be increased when the collaborative company becomes a “big fish in a small pond” or provides distinctive offerings which are not offered by other providers. This suggestion is especially relevant for the long-term saving and investments industry, as most of the offerings in this industry are homogenous. Nevertheless, it has been recognised in this study that despite the providers’ efforts in satisfying the IFAs’ needs, the IFAs are somewhat still dissatisfied. Therefore, involving the IFAs who have a good understanding of the industry and deal with end customers directly may stimulate the development of innovative and unique offerings. Finally, despite the existence of asymmetrical power structure in this intermediated relationship, the actors still have the opportunity to develop a trusting and committed relationship (Hingley, 2005; Kumar, 1996, 2005) by being reliable and treating each other fairly.

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