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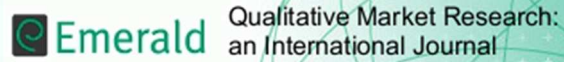
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Referrals for New Client Acquisition in Professional Services

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REFERRALS FOR NEW CLIENT ACQUISITION IN PROFESSIONAL SERVICES

Purpose: The research question addressed is: What are the perceptions of professionals and consumers regarding the antecedents of client referrals in the financial advice sector?

Methodology: A total of 61 qualitative interviews were conducted, with three key groups: Independent Financial Advisers [IFAs] (20 interviews); clients of IFAs (26 interviews); and, consumers who manage their own financial affairs and do not use the services of an IFA (15 interviews).

Findings: The financial advisers interviewed believe that client referrals are important to their business success, that they can influence clients to become ambassadors who will consciously seek out new clients, and that excellent service will motivate clients to provide referrals. However, the interviews with the clients painted a different picture. While advisers believe that they can influence client referral behavior, the clients did not believe that they were influenced by the adviser to make referrals.

Research limitations/implications: The sampling method was non-random and relied on the professional contacts of the principal researcher as a starting point, from which a network of contacts was established to identify interviewees. The study casts doubt on the ability of professional service providers to influence client referral behavior. This novel finding deserves further research investigation.

Practical implications: There is clearly scope for greater measurement in connection with referrals in professional service businesses. The propensity for clients to refer should be included as a metric in the performance measurement of professional service providers, in addition to standard financial measures. This would encourage the service provider to consider referrals during client interactions.

Originality/value: The study reports on a substantial qualitative study involving both professional service providers and their clients. While the providers believe that client referrals are critical to their business success, the evidence collected provides little or no support for this belief. Clients report they are not motivated to refer. Advisers do not explicitly measure referrals. The reality of referrals seems not to match the mythology.

REFERRALS FOR NEW CLIENT ACQUISITION IN PROFESSIONAL SERVICES

INTRODUCTION

Customer-to-customer (C2C) interaction is a fast-growing area of research interest. Although a consensus has yet to be reached on the matter of terminology, a number of influential articles have recently addressed various aspects of C2C interaction. Ryu and Feick (2007) and Wirtz et al (2013) investigated the effectiveness of referral reward programs. Van Doorn et al (2010, p253) introduced and explicated the concept of customer engagement behaviors (CEB), which they defined as “the customers’ behavioral manifestations toward a brand or firm, beyond purchase, resulting from motivational drivers”. Such behaviors include word-of-mouth (WOM), recommendations, helping other customers, blogging and writing reviews. For example, Stein and Ramaseshan (2015) looked at differences between the referral behaviors of the “switchers” and “stayers” of an ISP provider; Martin and Lueg (2013) provide a detailed evaluation of research concerning WOM, with particular emphasis on the role of the listener. All of these studies deal, in one way or another, with what Libai et al (2010) called C2C interactions.

According to Libai et al (2010, p269) the topic of C2C interactions is one of the most significant developments in marketing thought of recent years; a development calling for a substantial program of new research. C2C interaction can be defined as “the transfer of information from one customer (or a group of customers) to another customer (or group of customers) in a way that has the potential to change their

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3 preferences, actual purchase behavior, or the way they further interact with others”.

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5 While the rise of online marketing has been a primary driver of interest in C2C
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7 interaction (Kasabov 2016), Libai et al (2010) argue that insufficient attention has been
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9 paid to C2C interaction in the offline environment, and that offline interactions may be,
10
11 individually, more potent than online C2C interactions. In setting a research agenda for
12
13 C2C interactions, Libai et al (2010) point to opportunities for research in the offline
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15 environment, and in assessing the effects and evaluating the outcomes of C2C
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17 interactions. Seeking to contribute to this field of research, in this study we explore an
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19 important aspect of C2C interaction in the field of professional services. The focal
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21 concept in the study is client referrals. When discussing the empirical context of our
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23 study we will use the term “client” rather than “customer” since this is the term that is
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25 commonly used in professional service businesses, but where referring to prior literature
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27 that explicitly uses the term “customer” we will retain the term used in the original article.
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29 The research context for the study is the UK independent financial advice sector. We
30
31 report on the results of a qualitative study comprising 61 in-depth interviews conducted
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33 with Independent Financial Advisers (henceforth, advisers), clients of advisers, and
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35 private investors who choose to manage their own portfolio and not to use the services
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37 of an adviser.
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47 Prior published work on referrals in the practitioner literature has emphasized
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49 their practical importance to business professionals as a key method of business growth
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51 (Littlechild 2008; Richards 2011). Prior academic studies agree that referrals are an
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53 important aspect of business development, but have concentrated on investigating the
54
55 effectiveness of referral reward schemes (where incentives are provided to encourage
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3 referrals) often using quantitative, experimental research designs that present
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5 respondents with hypothetical scenarios (Ryu & Feick 2007; Wirtz et al, 2012). Reviews
6
7 of the field by Libai et al (2010) and Van Doorn et al (2010) have identified the need for
8
9 further investigation of the antecedents to referrals in offline environments. The
10
11 contribution of the present study is to investigate referrals using a rich, qualitative
12
13 research design that gathers data from both service providers (financial advice
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15 professionals) and consumers in the financial advice sector. Specifically, this study
16
17 seeks to contribute to the acknowledged gap in knowledge concerning offline referral
18
19 behavior using a naturalistic research methodology involving qualitative research with
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21 service providers (financial advisers) and private investors (including both clients, and
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23 those who manage their own investments). The primary research question addressed in
24
25 the study is: what are the perceptions of professionals and consumers regarding the
26
27 antecedents of client referrals in the financial advice sector?
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35 The paper first examines the practitioner and academic literature on the
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37 marketing of personal financial advice. Subsequently, focusing on referrals as the key
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39 mechanism for generating new business in this sector, the paper argues that referrals
40
41 have been poorly conceptualized in prior work by academics, practitioners and
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43 consultants operating in the field. A qualitative study was undertaken to investigate the
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45 explicit and implicit beliefs of advisers and consumers about referrals; to explore
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47 whether, as practitioner literature suggests, it is possible to actively manage the
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49 generation of referrals; and, to investigate the importance of referrals as a means of
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51 generating new business by advisers.
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FINANCIAL ADVICE, MARKETING & REFERRALS

The empirical context for the study reported in this paper was independent financial advice. Financial Advisers, who are regulated by the Financial Conduct Authority (FCA), provide advice to clients on financial matters, such as retirement planning, taxation and investments. Independent advisers can consider all types of retail investment products from all providers when advising the client, and are required to give unbiased and unrestricted advice. Restricted advisers can only consider certain products, or providers, or both, and are required to explain to the client the nature of the restriction (FCA, 2016). Financial advice firms are typically small; according to the Association of Professional Financial Advisers (APFA), the average number of advising staff per firm was 4.5 (APFA, 2015). Consequently, they do not have the financial resources to conduct substantial conventional marketing campaigns; instead they rely on referrals to obtain new business (Pickersgill, 2013). Advisory firms seldom have advertising budgets or “the direct brand recognition to approach the retail public directly” (Sittampalam, 2013, p5). Therefore it is crucial for advisers to build enduring client relationships, with satisfied clients, who in turn may refer prospective clients. Research indicates that word-of-mouth (WOM) influences behavior more than other marketing methods (Buttle, 1998).

Previous researchers have remarked that the characteristics of financial services make this a fruitful context in which to investigate relational marketing phenomena (Eisengerich & Bell, 2006; Ryals & Payne, 2001). Eisengerich & Bell (2006) argue that services such as financial advice are complex, difficult for the client to understand, and uncertain in terms of technical outcomes. In markets for services with these

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3 characteristics relational approaches to client management are particularly important

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5 (Eisengerich & Bell 2006). Financial advice is considered to be a 'credence good'

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7 (Darby & Karni, 1973:68), where the consumer knows less than the provider (Eraut,

8
9 1994). Consumers are naturally cautious about decisions that could affect their long-

10
11 term financial well-being. Furthermore, research in behavioral economics has shown

12
13 that the ability of consumers to make informed decisions about such matters is

14
15 influenced by deep-seated cognitive biases such as procrastination, regret and loss

16
17 aversion, status quo bias, and information overload (de Meza et al 2008). The

18
19 marketing of financial services is heavily regulated so that many practices that are

20
21 normal in other sectors are not allowed in financial services. For example, there is strict

22
23 regulation of financial advice company names to avoid any possibility of misleading the

24
25 potential client; also, if a company offers both independent advice and restricted advice,

26
27 then it is not permitted to include 'independent' in the trading name (FSA 2012).

28
29 Providers are heavily constrained in how they are allowed to describe their financial

30
31 product offerings. Under these circumstances, where consumers often lack confidence

32
33 in their own knowledge of the field and where conventional marketing approaches are

34
35 heavily constrained, it is not surprising that relational aspects of marketing become

36
37 important. The literature is in general agreement that the success of smaller service

38
39 firms, such as financial advice providers, is dependent upon recommendations and

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41 satisfied clients who repurchase (Bryson et al, 1993). In the specific context of the UK

42
43 financial advice sector, the Retail Distribution Review of 2012/13 introduced important

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45 new constraints on firm behavior. In particular, financial advisers are no longer

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47 permitted to earn commissions from fund companies in return for selling or

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3 recommending their investment products. Instead, investors now have to agree fees
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5 with the adviser upfront.
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9 Financial advice businesses rely entirely on clients and so marketing activities
10 have the twin concerns of effectively managing existing client relationships and sourcing
11 new clients. It is widely perceived by advisers that their business success depends on
12 generating referrals, so this paper addresses an issue of considerable importance to
13 practitioners (Littlechild, 2008; Richards, 2011). Financial services products can be
14 difficult for consumers to understand, and the ultimate success or failure of the advice
15 process is difficult to measure and can only be judged *post hoc* (Gaskell & Ashton,
16 2008). Potential consumers thus have difficulty in determining whether they need advice
17 and what type of advice is appropriate; an evaluation of the quality of advice may only
18 be possible in retrospect (Clarke, 1999). Little prior academic research has specifically
19 addressed how adviser-client relationships can be developed in a way that will lead to
20 client referrals (Boles et al, 1997; Connors, 1998) and authors lament the “relative lack
21 of empirical research in financial planning” (Hunt et al, 2010, p82).
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40 The focus of the present study is customer referrals in the field of personal
41 financial advice services. Referrals fall within the domain of customer-to-customer
42 interaction, reviewed by Libai et al (2010), and within the domain of customer
43 engagement behaviors, reviewed by Van Doorn et al (2010). A referral necessarily
44 involves customer-to-customer interaction, while from the perspective of the firm a
45 referral is a positive and desirable form of customer engagement. Referrals are a matter
46 of both theoretical and practical significance, and so have been investigated both by
47 scholars and by practitioner-researchers. Consequently, research into referrals has
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3 been published both in academic journals such as the *Journal of Marketing* and the
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5 *Journal of Service Research*, and in practitioner journals such as the *Journal of*
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7 *Financial Planning*.
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11 Practitioner-orientated research into referrals confirms that they are a matter of
12
13 enduring and significant concern for professionals in the field of financial advice
14
15 (Littlechild 2008). Professionals working in this sector clearly believe that referrals are of
16
17 critical importance to the development of their businesses. Articles written for
18
19 professionals focus on the antecedents to referrals, with particular emphasis on
20
21 antecedents that are perceived to be under the control of advisers and managers.
22
23 Notably, the effectiveness of specific adviser behaviors, such as asking clients directly
24
25 for referrals, is a matter of debate in the practitioner literature (Richards 2011; Wershing
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27 2013). However, much of this literature is anecdotal in nature. Consequently, while this
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29 published work usefully confirms that referrals are important to professionals, who are
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31 interested to learn about mechanisms for increasing referrals, there is negligible
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33 systematic evidence upon which to draw.
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41 Empirical investigations into referrals published in academic journals largely
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43 employ experimental research designs, where consumer samples are presented with
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45 hypothetical scenarios and asked to respond to questions about how likely it is that they
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47 would provide a referral. Ryu and Feick (2007) used an experimental design and
48
49 hypothetical scenarios with a sample of undergraduate students to establish that the
50
51 provision of a reward enhances the likelihood of a referral. Wirtz et al (2012), who
52
53 extended the work of Ryu and Feick (2007) on referral reward programs, conducted
54
55 qualitative interviews with 26 customers, and then two experiments using hypothetical
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3 scenarios (one with members of the general public and one with MBA students). Kumar
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5 et al (2010) also investigated the effect of incentives on the propensity to refer, using
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7 data from a financial service firm's customer database, and a field experiment
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9 methodology where selected customers were exposed to different marketing programs.
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11 Reviewing research into customer-to-customer interaction, Libai et al (2010: 270)
12
13 conclude that "relatively limited attention has been given in recent years to the diversity
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15 of interaction types in offline environments". Reviewing research into customer
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17 engagement behaviors, Van Doorn et al (2010: 262) assert that "research is needed to
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19 more exhaustively identify the antecedents of CEBs".
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25 The practitioner literature confirms that business professionals consider referrals
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27 to be important and wish to know more about the antecedents to referrals and what
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29 actions the firm can take to promote referrals (Littlechild 2008, Richards 2011, Wershing
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31 2013). The academic literature also suggests that deeper investigation into the
32
33 antecedents of referrals is necessary, and that research into customer-to-customer
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35 interactions in offline environments merits greater attention (Libai et al 2010, Van Doorn
36
37 et al 2010). In addition, seminal studies in this field have been based on experimental
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39 studies using hypothetical scenarios, and have largely concentrated on the
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41 effectiveness of referral reward programmes (Ryu & Feick 2007, Wirtz et al 2012). In
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43 our study we seek to complement and augment prior work in the field of customer
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45 referrals by undertaking a rich, qualitative study of referrals that involves both consumer
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47 respondents (private investors) and service-provider respondents (financial advisers), in
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49 order to investigate the complex processes of client-to-client interaction that are
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51 involved, and to investigate the extent to which service providers can influence client
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3 referral behavior. This research question was identified in the introduction: “what are
4 the perceptions of professionals and consumers regarding the antecedents of client
5 referrals in the financial advice sector?” The following research objectives derived from
6 this research question are pursued in this study:
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13 (1) To investigate the explicit and implicit beliefs of practitioners and consumers
14 about the antecedents to client referrals;
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19 (2) To explore whether it is possible to actively manage the generation of referrals;
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21 and,
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25 (3) To investigate the importance of referrals as a method of generating new
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27 business.
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30 The next section outlines the research approach that was employed to pursue
31 these objectives.
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METHODOLOGY AND METHODS

Qualitative semi-structured interviewing was the primary method of data gathering, aiming to gain access to the individual experience, emotions and feelings of the research participants (Strauss & Corbin, 1998). Individual interviewing was the principal method of data gathering. However, on one occasion the opportunity arose to conduct a group interview with three financial advisers and this opportunity was taken since otherwise valuable data might have been foregone. The chances of arranging individual interviews with all three was low, and as Buchanan, Boddy & McCalman (1988, p. 56) assert: “Negotiating access to organizations for the purposes of research

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3 is a game of chance, not skill." The research approach allowed theoretical ideas to
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5 emerge or be derived from the data (Bryman, 2008). The primary analytical approach
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7 was thematic analysis, which focuses on what is said or missing, similarities and
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9 differences, while searching for repetition, metaphors and the language used to explain
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11 referrals (Ryan & Bernard, 2003).
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16 The interpretive process employed identification of themes, memo writing and
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18 analysis of the language used by respondents. As recommended by Ryan and Bernard
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20 (2000) a systematic, sequential process of analysis was followed, linking themes to
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22 concepts. Themes emerged from the data that could be allocated to categories derived
23
24 from the study aims (Cohen et al, 2008). Paper copies of transcripts, edited for
25
26 relevance, were pinned to a cork board. Memo writing, as advocated by Bryman and
27
28 Bell (2007), was used as a method of identifying emergent themes. Notes and memos
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30 were physically attached to the paper copies of the interview transcripts, to provide a
31
32 reminder of the key themes and to encourage further reflection. This allowed the data to
33
34 be visualized both individually and holistically and generated new findings that had not
35
36 been previously identified: for example, the imprecise language used by consumers to
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38 describe adviser performance and the complex language that surrounds the provision of
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40 advice.
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48 The principal researcher (and first author) of this study has many years of
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50 business experience in the financial advice sector; his network of contacts was used as
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52 a means of gaining access to interviewees. This is not to say that the interviewees were
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54 business associates of the principal researcher; rather, his contacts within the
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56 profession, notably with the professional and trade bodies were used as a means of
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3 opening doors. The nature of this business means that gaining access is inherently
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5 problematic because of the confidential nature of the work and because many of the
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7 people involved, both advisers and clients, are of high social status and lead complex
8
9 and busy lives.
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12
13 The involvement of a practitioner in the research process merits some
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15 discussion. Since this is explicitly an interpretivist study there is no attempt to pretend
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17 that the researcher can be used as an entirely independent, neutral research
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19 instrument. The advantages of including a practitioner in the research process
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21 considerably outweigh any disadvantages. Those advantages include an ability to
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23 negotiate access; an understanding of the business and regulatory environment; a
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25 grasp of the technical language; and, the ability quickly to build rapport with
26
27 interviewees. The principal disadvantage is that the researcher may have pre-
28
29 conceptions regarding the objectives of the research, and therefore be subject to bias in
30
31 the interpretation of the qualitative data. It is acknowledged that this risk cannot be
32
33 entirely eliminated; steps taken to reduce the risk of bias included critical dialogues with
34
35 the co-researcher (second author), and the writing of extensive self-reflective essays
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37 explicitly juxtaposing introspections on prior experience with the newly gathered data.
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39 An example of the self-reflective approach is provided in the appendix.
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48 A total of 61 qualitative interviews were conducted, with three key groups:
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50 Financial Advisers (20 interviews); clients of advisers (26 interviews); and, consumers
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52 who manage their own financial affairs and do not use the services of an adviser (15
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54 interviews). For the reasons outlined above, the sample selection procedures were
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56 judgmental and non-random. Professional contacts and trade bodies were used to gain
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3 access to advisers; advisers themselves were asked to provide introductions to clients;
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5 and, both advisers and clients were asked for introductions to consumers who manage
6
7 their own financial affairs. As is to be expected when researching sensitive matters,
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9 many invitations to participate were refused and the process of constructing the
10
11 qualitative sample was difficult and time-consuming. All of the 20 Financial Advisers
12
13 interviewed were independent advisers (rather than restricted advisers), and although
14
15 there was a preponderance of advisers from London and south-east England,
16
17 successful efforts were made to include advisers from other geographical regions of the
18
19 UK. The 26 clients interviewed were characteristic of people who engage the services of
20
21 a Financial Adviser; that is to say, this group included self-employed business-people
22
23 (such as a hair salon owner and a restaurant owner) and people employed in
24
25 professional occupations (such as accountancy and law). The 15 respondents who
26
27 manage their own financial affairs fitted a similar profile to the clients; this group also
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29 comprised self-employed business-people and professionals.
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41 RESULTS AND DISCUSSION

42 43 44 *The Practitioner Perspective*

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47 Grönroos (1978) observes that a key problem in marketing a service is how to
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49 explain an intangible proposition in tangible terms. Financial advisers struggle to explain
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51 the service they offer:
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3 'For whatever reason they just haven't got it...if they can't tell me...
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5 what are they saying to someone else...speak to David because what he
6
7 does is [err um]...My conclusion is that I have failed to communicate
8
9 effectively what I am doing for them' (IFA 18).
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14 Consistent with the findings from the literature review, it was found that advisers
15
16 are seldom engaged in conventional marketing and believe that they rely on referrals to
17
18 generate new clients. Advisers were asked about the antecedents to referrals, and they
19
20 have strong beliefs on this matter. They believe that they can influence clients to
21
22 become ambassadors who will consciously seek out new clients, and they believe that
23
24 excellent service will motivate clients to refer. As we will see below in the discussion of
25
26 the client interviews, clients had a contrary view and did not believe that they were
27
28 influenced by the advisers to make referrals.
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33 From the adviser point of view soliciting referrals is deemed to be a necessary
34
35 part of their professional role, but they are reluctant to ask explicitly for a referral
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37 because they do not wish to engage in behavior that they consider characteristic of
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39 sales-people. For example when an adviser was invited to say whether she asked for
40
41 referrals, she hesitated before answering '*No...I know I should...perhaps in the future I*
42
43 *might*' (IFA2), echoed by another who simply said '*I know I should but I don't*
44
45 (IFA12). The sense was that practitioners were impressed by advisers who did ask, but
46
47 that somehow could not bring themselves to do so. The perception that referrals flow
48
49 from asking was also reinforced by two more advisers who said '*I am no good at*
50
51 *referrals...I guess because I don't like asking*' (IFA3) and '*I can't ask because I am shy*'
52
53 (IFA7). It is interesting to note that whether or not a financial adviser should directly ask
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3 for referrals is a frequently debated issue in the practitioner literature (Richards, 2011;
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5 Wershing, 2013).
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9 During an interview with three advisers, who work for the same firm, in order to
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11 elicit information about the antecedents to referrals they were asked who in their
12
13 company obtained the most referrals and why. All three said that their boss was the
14
15 most successful as *'he almost always asks'* (IFA4). When asked for a more detailed
16
17 explanation for his success they were less clear but they did say that he *'engenders an*
18
19 *incredible degree of trust even with people he has only just met'* (IFA11). In turn the
20
21 three advisers were then invited to explain how the boss achieved this degree of trust
22
23 they said they *'don't know...it just happens'* (IFA4). One of the advisers reflected that he
24
25 could go through *'exactly the same process but would not get referral'* as he believes
26
27 that it is the *'difference between people...I can enter a room and might end up talking to*
28
29 *two people whereas [the boss] will talk with everyone'*. All three advisers agreed that
30
31 *'we are more reserved'* (IFA5).
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38 Another adviser explained that:

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41 'As people have always said you have to ask for referrals [laughs]... I
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43 guess it is a perception circulating in the industry...I have a different view on
44
45 it ...but probably if you don't ask... you may not get....I really don't know'
46
47
48 (IFA9).
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52 This comment came from a very experienced adviser, who acknowledged that
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54 asking was uncomfortable for both him and his clients, and admitted he rarely asked for
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3 referrals even though he still he perceived that he should ask just in case he was
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5 successful.
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9 It seems that advisers do not want to ask explicitly for referrals, yet do want to
10 solicit referrals from clients, and so they have tried to devise indirect methods of asking.
11 For example, one aims to *'make it subliminally known that I am interested in referrals'*
12 (IFA17), another aims to *'ask without asking'* (IFA7) and explained the indirect approach
13 by saying:
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22 *'...we don't ask but we make it known we are interested in*
23 *referrals...we say... hopefully you will feel that you have got such a good*
24 *service that you will want to refer us to your friends'* (IFA12).
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29
30 Advisers clearly believe that the quality of service they provide is an antecedent
31 to referrals, by influencing client propensity to refer. The sense that *'being always*
32 *available'* (IFA18) was essential to the maintenance of good client relations seemed to
33 be widely shared. Advisers also believe that doing their job to a high standard will
34 encourage clients to become advocates on their behalf, and be prepared to instigate
35 conversations about them. Many advisers expressed the belief that *'clients can be*
36 *conditioned to pass on names'* (IFA1) or by *'making them happy with us'* and specifically
37 by earning their gratitude for *'a client will be grateful if you deliver a solution to what they*
38 *considered a problem that gave them sleepless nights'* (IFA8). Others also reported a
39 belief that existing clients will promote their service, as *'the clients, the big ones, will*
40 *come when you can demonstrate professionalism ... clients will tell their friends about*
41 *excellent service'* (IFA19). While this was a qualitative study and it would be
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3 inappropriate to make quantitative claims, nevertheless, the belief that providing a good
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5 service generates referrals seems to be an article of faith among advisers. However,
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7 when asked to provide evidence for this assertion, no adviser was able to do so.
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10 11 **The Client (Customer) Perspective** 12

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14 The awkwardness advisers feel in asking for a referral is reflected in the client
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16 interviews. On the one hand, clients say that when they need an adviser they would like
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18 to receive a referral from a trusted source, while on the other hand they are reluctant to
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20 provide a referral to an adviser. Several client interviewees confirmed their reluctance to
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22 offer referrals, with similar sentiments to this: *'...not very nice... puts me off to be*
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24 *fair...might give them the name of someone I don't like [laughs]'* (Client 7). Another
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26 client felt that if the adviser asked for a referral it could damage the client relationship:
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28 *'it takes a while to build up relationships...they are precious and I don't want to disturb*
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30 *them'* (Client 9). Investors who did not use an adviser were more forthright, viewing the
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32 practice of asking for referrals as distasteful and possible counter-productive, for
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34 example: *'I would not introduce as they must be struggling if they have to ask me for an*
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36 *introduction'* (Investor 3); and, *'I would be surprised...I wouldn't react...I probably*
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38 *wouldn't respond...I probably wouldn't introduce him to somebody...because I wouldn't*
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40 *feel that was my role'* (Investor 7).
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49 Surprise was a word often used by consumers when they were asked how they
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51 would react to being asked for referral. As one medical professional put it: *'probably*
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53 *would be surprised... I don't ask you to send your wife in for a check-up...anyway it puts*
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55 *people in an awkward position'* (Client 14). Another consumer was adamant that he:
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'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?' (Client 17).

There was some evidence that advisers who ask for referrals would be viewed with suspicion by clients:

'If he was soliciting for business...I would be less inclined to say yeah yeah...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 [*colloquial: unprofessional*]...I'm not going to ...you know what I mean' (C10i).

The Paradox of Referrals

From the empirical study it is clear that the financial advisers believe referrals to be easily the most important mechanism available for generating new business. Most of the advisers reported that a majority of their new clients come through referrals; furthermore, advisers reported that where a referral was received, the likelihood that the person referred to them would become a client was very high. However, caution is required in the interpretation of these findings, since the answers to follow-up questions suggested that advisers have very poor systems for monitoring referrals (sample comment: "*don't know ... sad, but I don't know*"). Indeed, it seems that the claims made by advisers about the frequency and importance of referrals were estimates, or even guesses, based on negligible data. Thus, a paradox arises, since advisers believe that referrals are of crucial importance for new business development, yet have little or no management data about referrals. Furthermore, advisers reported that asking clients for

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3 referrals during client meetings was something rarely done, and was considered to be
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5 an ineffective method of acquiring new clients. The client interviews tended to support
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7 this perception: clients reported that their financial advisers rarely asked them to provide
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9 a referral, and that they would be very reluctant to respond positively if asked. Taken at
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11 face value, these results have a paradoxical feel: on the one hand financial advisers
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13 believe referrals to be critically important and something over which they have a degree
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15 of managerial control, on the other hand advisers acknowledge that they have negligible
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17 management data about referrals, and clients report that they are very seldom asked for
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19 referrals by advisers. Advisers believe that they cause or influence the generation of
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21 referrals through four principal behaviors: (1) providing excellent service; (2) making
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23 timely response client communications; (3) maintaining frequency of contact; and (4)
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25 asking for referrals indirectly or subliminally [*ask without asking*]. However, when asked
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27 to provide a concrete example where they had used these behaviors successfully,
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29 advisers were unable to do so. During the interviews, advisers were asked how they
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31 generated referrals. This yielded a number of interesting replies, chief among them is
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33 the notion that advisers believe they can influence clients to become ambassadors, who
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35 will consciously seek out new clients. These ideas were explored during the interviews
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37 with clients and those who manage their own financial affairs, and no evidence was
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39 found to support the notion of 'customer-initiated referrals', whereby consumers are
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41 willing to become 'unpaid' adviser 'advocates' (Buttle, 1998:245). Indeed, clients did not
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43 want to participate in such processes (for example: *if it turns out the advice is wrong*
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45 *that could reflect on me* [Client 14]).
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3 The comments of the client interviewees show that referrals are as likely by
4 serendipity as by design. They explained that referrals are typically the result of a friend
5 or colleague indicating that they need assistance with money management, rather than
6 being instigated by the client. Clients said that they responded when they were *'asked*
7 *for help'*, when *'he was talking about money'*, or *'complaining about death duties'* or
8 simply because someone had *'asked for my advice'*.
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21 **DISCUSSION: DEFINING AND REFINING THE CONCEPT OF** 22 **REFERRALS** 23 24 25 26 27

28 As we noted in the introductory paragraphs, terminology in this field of research
29 is still developing and there is as yet no simple consensus. Broadly, the field constitutes
30 C2C interaction (Libai et al 2010), while van Doorn et al (2010) have suggested the
31 term "customer engagement behaviors". Within these broad categories are found
32 narrower terms delineating specific forms of customer behavior, both online and offline,
33 such as word-of-mouth, recommendation, customer review, and providing help to other
34 customers. Our study focuses on referrals, a concept that is considered important by
35 professional service providers. However, the term "referral" has been used
36 synonymously with "word-of-mouth" in a number of studies; for example, those of Helm
37 (2003), Kumar et al (2010), and Ryu & Feick (2007). Indeed, Ryu and Feick seem to
38 use the terms "referral", "recommendation", and "word-of mouth" synonymously. In this
39 study we argue that a referral is more complex and of greater business significance
40 than positive word-of-mouth or a recommendation. Table 1 proposes a four-fold
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3 hierarchy of C2C interactions in professional service businesses. The weakest form is
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5 positive word-of-mouth, somewhat stronger is a recommendation, stronger still is an
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7 introduction (of the potential client to the service provider), and the strongest form is a
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9 referral. Furthermore, the contention of this paper is that referral is better
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11 conceptualized as a *process* than as an *act*. Related terms such as recommendation
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13 and word-of-mouth may play a part in the overall process, but the referral process is
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15 only completed once a client contract has been signed and a fee agreed. Both positive
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17 word-of-mouth and a client recommendation may occur in the early stages of the
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19 referral process, but additional steps must take place before a referral is finalized.
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35 Prior studies have sought to define a referral as an act occurring at a particular point in
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37 time, from which the outcome is a transaction within a newly established provider/client
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39 relationship (Kumar et al 2010). However, there is confusion and conflation in the
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41 literature, often demonstrating a failure to distinguish clearly between the concept of a
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43 word-of-mouth recommendation and a referral. Positive word-of-mouth may result in a
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45 referral, but the two concepts are distinct. To distinguish clearly between the two, we
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47 argue that word-of-mouth is a clearly defined act, whereas referral is better
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49 conceptualized as a process. The achievement of positive word-of-mouth is not a
50
51 sufficient condition for the achievement of a referral. A referral is defined to have
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53 occurred once a meeting takes place between a prospective client, recommended by an
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3 existing client, who in turn contacts and arranges a meeting with a financial adviser. A
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5 referred, prospective client may then become a new actual client. Rather than
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7 conceiving of a referral as an *act* that takes place when one party (the client/introducer)
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9 mentions the financial adviser favorably to another party (the prospective client), *referral*
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11 is better conceived to be an iterative *process*.
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19 **CONCLUSION, IMPLICATIONS AND LIMITATIONS**

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22 The field of C2C interaction is of great interest both to academic researchers and
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24 business practitioners. Although it is seen as an emerging area of interest, driven
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26 particularly by explosive growth in IT and the opportunities for online customer
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28 information exchange, C2C interaction in the form of client referrals has been a topic of
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30 importance to professional service providers for a very long time.
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35 Research investigating this topic has been sought in the practitioner literature
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37 and the academic literature. While consultant/practitioners have written about the
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39 subject, this work tends to be anecdotal or based on research of dubious provenance.
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41 Academic researchers have not squarely addressed the subject of referrals in the
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43 financial advice sector. An important gap exists. There is little convincing research
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45 evidence about the antecedents to referrals or how important referrals, in fact, are,
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47 despite frequent claims by consultant/practitioners that they are easily the most
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49 important source of new business in this sector. Additionally, the extent to which
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51 referrals can be actively managed is unclear. The language clients used clearly
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3 indicates that referral antecedents are externally driven, that is, instigated by the
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5 requester.
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9 Prior literature has largely focused on service provider behaviors as antecedents
10 to referrals, most notably referral reward schemes, actively asking clients for referrals,
11 and providing excellent service on the assumption that this will encourage referrals (Ryu
12 & Feick 2007, Wirtz et al 2013, Littlechild 2008, Richards 2011). In addition, the
13 literature shows confusion, or conflation, between terms such as WOM,
14 recommendation, and referral. We propose that referral is better conceptualized as a
15 process within which specific C2C acts such as WOM and recommendation are
16 components. In the empirical context that we examined there was little evidence for the
17 proposed antecedents. With respect to asking clients for referrals, evidence suggests
18 this may be counter-productive, while with respect to the provision of excellent service,
19 this is very unlikely to be an antecedent to referral but is likely to act as a moderating
20 variable (the decision of a client who has a good reason to refer may be moderated by
21 the perceived service quality received). The antecedents to referrals lie primarily in the
22 life circumstances and behaviors of clients. In our study in the financial advice sector
23 the type of relevant life circumstance is of a financial nature. In other professional
24 service contexts the specific, relevant life circumstances would naturally be different.
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51 *Practical Implications*

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54 The comments of the client interviewees suggest that practitioners have relatively
55 little influence over the referral behavior of clients. They explained that referrals are
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3 typically the result of a friend or colleague indicating that they need assistance with
4 money management, rather than being instigated by the client. Clients said that they
5 responded when they were asked for help by a member of their social network, rather
6 than proactively providing a referral. The language clients used clearly indicates that the
7 stimulus for the initial word-of-mouth exchange is externally driven, in that it was
8 instigated by the requester (usually a friend or family member). The practice of
9 professional service providers asking for referrals, a technique advocated by many
10 commercial companies, may be counterproductive.
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23 There is clearly scope for greater measurement in connection with referrals in
24 professional service businesses. We suggest that the propensity for clients to refer
25 should be included as a metric in the performance measurement of professional service
26 providers, in addition to standard financial measures. This would encourage the service
27 provider to consider referrals during client interactions. In addition, the professionals we
28 interviewed gathered little or no objective information about the number of referrals
29 achieved, either at the level of the whole firm, or at the level of the individual service
30 provider. Collecting and analyzing such data would enable light to be shed on important
31 managerial issues, in particular, identifying differences between individual service
32 providers in terms of their success in delivering referrals.
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47 *Limitations*

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50 This study was conducted in the context of the UK independent financial advice
51 sector. The sampling method was non-random and relied on the professional contacts
52 of the principal researcher as a starting point, from which a network of contacts was
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3 established to identify interviewees. These are limitations on the study methodology,
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5 although it must be acknowledged that it is practically impossible to conduct a study of
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7 professional service providers and their clients without exploiting existing professional
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9 contacts.
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14 By the nature of the research the independence and impartiality of the
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16 researchers can be questioned, since the fieldwork was conducted by a
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18 practitioner/researcher. This may have influenced the responses, particularly those of
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20 the practitioners who were interviewed, who may have responded differently if
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22 interviewed by someone with no knowledge of the industry. Practitioners certainly did
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24 use the particular jargon of their industry, knowing that it would be understood by a
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26 fellow practitioner.
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APPENDIX

An example of a reflective essay written during the data gathering phase

During the interviews, I realized 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 centered on key moments in the lives of advisers, 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'. It was not the original intention to utilize an incident-based research method but, since the aim was to stimulate memories of past encounters by recalling critical incidents, it does appear particularly well suited for a study with exploratory ambitions.

Table 1 Antecedents of an embryonic referral

Elements	WOM	Recommendation	Introduction	Embryonic Referral
Value Indicator	Weakest Positive or negative discussion	Intermediate Endorsement of the firm or advisor	Strong Provision of contact details	Strongest Offer to contact/introduce prospect to firm
Prospects	'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?'
Clients	'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?'

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