

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

Author:

Adam C Poole MSc

PhD Student

Cardiff Business School,
Cardiff University,
Aberconway Building,
Colum Drive,
Cardiff
CF10 3EU
United Kingdom

Pooleac@cardiff.ac.uk

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

Summary

This exploratory qualitative study identifies and examines the drivers of surrogate usage and selection criteria in the context of the use of an Independent Financial Adviser (IFA) by a UK consumer.

This study results in three main findings. Firstly, the expertise offered by the surrogate is identified as being of central importance to both the decision to use an IFA and also in the selection of a particular IFA. Secondly, both the complex nature and wide variety of products offered to UK consumers are shown to be key drivers of the decision to use an IFA. Thirdly, this study confirms suggestions in existing literature regarding the importance of word-of-mouth communication in the financial services industry and finds that it has a prominent role in the selection of an IFA by a UK consumer.

This paper offers suggestions for future research and implications for managers in the financial services industry.

Track: Marketing and Retail

Word count: 6940

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

1. Introduction

When faced with a purchasing task that is either high risk or complex, or where the consumer lacks the necessary competence, experience, or resources to undertake that task successfully, one strategy open to the consumer is to delegate the task to an agent or ‘surrogate’ who will then either assist the consumer with one or more stages of the purchasing process or undertake them on their behalf (Price and Feick, 1984; Solomon, 1987a.) Such practices have occurred since Roman times (Gabel, 2005) and are undertaken in a diverse range of industries including the purchase of clothing, wine, computer equipment and investments (Solomon, 1987b; Hollander and Rassuli, 1999, Aggarwal and Mazumdar, 2008) with those involved in surrogacy generating significant revenues running into billions of dollars (Hollander and Rassuli, 1999).

Past research has shown that the benefits offered to consumers by surrogates fall into two broad categories. Firstly, functional benefits relating to *utility* such as reducing the time and effort spent in researching products and markets, or providing access to goods or services that would be otherwise unavailable to the consumer, and secondly, *symbolic* or psychic benefits, where the surrogate provides reassurance, guidance or status to their client, often as a result of a lack of confidence on the part of the client in their own decision making abilities (Solomon, 1987a; Stern *et al.*, 1992.)

Research has also identified that consumers are more likely to delegate to surrogates when the consumer perceives the surrogate to be competent, trustworthy, and accountable, and also to possess the ability to customize the goods or services in question (Aggarwal and Mazumdar, 2008), and that lifestyle, particularly time poverty, and demographic factors such as income, gender and age can affect the propensity of a consumer to delegate (Solomon, 1987a; Forsythe 1990; Stern 1992; Hollander and Rassuli, 1999; Lee and Cho, 2005.)

However, to date no research has been undertaken that establishes the criteria used by consumers to select a particular surrogate with authors such as Solomon (1987b) and Aggarwal and Mazumdar (1998) identifying the need for such research.

This study aims to respond to this gap in knowledge by undertaking an exploratory qualitative examination of the criteria used by UK consumers when selecting an IFA using a series of in-depth semi-structured interviews. In doing so, this study not only aims to identify the criteria used to select an IFA but also to gain a deeper understanding of why those criteria are of importance. This study will also examine the reasons why UK consumers choose to use a surrogate in this particular context as no research currently exists that specifically examines this issue.

This context has been chosen as past research has found that the purchase of a financial service product is both high risk and highly complex due to the nature and variety of products on offer (Sekhon *et al.*, 2014.) This, together with a lack of understanding of financial services products on the part of consumers, leads to information asymmetry between consumers and product providers (Diacon and Ennew 2007) giving rise to a situation where 70 % of UK consumers choose to purchase such a product through a financial adviser, rather

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

than going direct to an investment or life assurance company, rising to 87% for more complex products such as pensions (ABI, 2014.)

The next section presents the theoretical background to the study with the third section presenting the research methodology used. The fourth section presents and discusses the findings whilst the final section presents conclusions, managerial implications, opportunities for future research and limitations.

2. Theoretical Background

Solomon (1986, p. 208) defines a surrogate as ‘an agent retained by the consumer to guide, direct and/or transact marketplace activities.’ Forsythe (1990) elaborates this definition by noting that surrogates can be employed by either a consumer or retail firm, and that surrogates often participate in all stages of the consumer decision making process.

Hollander and Rossuli (1999, p. 103) further develop this definition by adding that a surrogate is an individual or entity engaged ‘in a business or professional activity’, acts on behalf of the consumer with the consumer’s best interests as its primary responsibility, and adopts a fiduciary responsibility towards a consumer. In contrast to Forsythe (1990), Hollander and Rossuli (1999) also add that a surrogate is expected to offer alternatives from a variety of different stores thereby differentiating a surrogate from a salesman or personal shopper employed by a retail organisation.

The definition offered by Hollander and Rossuli (1999) closely matches the role of an IFA within the UK marketplace who is typically paid by clients to provide advice regarding which products offered across the entire market place best suit a particular clients’ needs (Ennew 1992; Laing 1995.)

2.1 The drivers of surrogate usage

As indicated above the benefits of using a surrogate fall into the two broad categories of utility and symbolic benefits. Whilst various research in other contexts such as the purchase of female business apparel (Forsythe *et al*, 1990) indicates that consumers seek to use a surrogate in order to gain both type of benefits for a variety of reasons, there is little, if any, research that relates specifically to the drivers of surrogate usage in the UK financial services sector. However, the finding of Lee and Cho (2005) that US consumers who considered themselves to have more expertise were less likely to use a surrogate when purchasing financial services products indicate that a lack of expertise may be a driving factor in the decision to use a surrogate. This suggestion is supported by Monti *et al* (2014) who found that Italian consumers investing in shares through a co-operative bank delegated part or all of the decision as a result of a lack of expertise. Furthermore, as a lack of such expertise could also indicate a lack of knowledge and experience on the part of the consumer, this finding carries the implication that a lack of experience and knowledge are also potential driving factors of surrogate usage in this context. However, the findings of Aggarwal and Mazumdar (2008) that the propensity to delegate to a surrogate is higher where the consumer perceives a greater difference between their own expertise and the perceived expertise of the surrogate suggest that it may be the expertise offered by the surrogate that is the driver of delegation rather than a lack of expertise on behalf of the consumer.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

In a study of US consumers, Lee and Cho (2005) found that surrogates were used to avoid spending time and effort on the purchasing process. This suggests that the nature of the UK financial services marketplace, with an ‘overwhelming’ number of highly complex products offered by 387 authorised companies (ABI 2014; Cox 2006, p. 76) may also be a driver of surrogate usage by UK Consumers. This suggestion is supported by the findings of Schrah *et al* (2006) that the propensity of an individual to rely upon the advice of others increases as task complexity increases and the findings of Borgatti and Cross (2003) that in a problem solving context individuals have a propensity to seek advice from others who they perceive as having relevant expertise.

A further explanation of the motivation to use a surrogate in this context comes from the Regulatory Focus Theory (RFT: Higgins, 1998) whereby a consumer will have either a promotion or prevention focus when choosing a course of action to follow. Consumers who adopt a promotion focus are motivated by the benefits they will accrue by following a particular course of action whilst those with a prevention focus are more concerned with safety and the desire to avoid negative consequences (Rajamma and Pelton, 2009). As the purchase of an investment product has been found to be a complex and rare event that carries a high risk of failure with potentially severe consequences, many consumers are apprehensive about making such a purchase (Harrison, 2003; Harrison *et al*, 2006; Gough, 2005.) Accordingly, a consumer could therefore choose to use an IFA in order to avoid potentially negative outcomes, which equates to adopting the prevention focus of regulatory focus theory.

2.2 Criteria for surrogate selection

Aggarwal and Mazumdar (2008) found that the perceived trustworthiness, expertise and accountability of the surrogate together with the ability to customize the product or service, increased the propensity of consumers to delegate. Accordingly, the perception that a particular surrogate possesses any of these attributes may enhance the likelihood that a consumer will engage the services of that surrogate.

However, as customization of the products or services on offer is implicit in the definition given by Laing (1995) of the requirement for an IFA to offer products from across the whole marketplace that best suit an individual client’s needs, it could be argued that in this context the ability to customize the products on offer is an intrinsic part of the decision to use a surrogate rather than a criterion for the selection of any particular surrogate. Furthermore, as any consumer would reasonably expect any third party they engage to act on their behalf to be accountable for their actions, then the accountability of the surrogate would also be an intrinsic part of the decision by a consumer to use a surrogate.

Trust and trustworthiness, which are two distinct concepts, have been found to be of importance if not essential in any relationship between a consumer and a business (Yousafzai *et al*, 2005; Ennew *et al*, 2011.) Trust can be defined as an expectation on the part of a consumer that a service provider can be relied upon to act in a manner that will best serve their best interests (Sharma and Patterson, 1999.) This definition together with the general expectation that a surrogate will act in the best interests of a client indicates that trust may be influential in the decision by a consumer to use a particular surrogate. This argument is

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

reinforced by the suggestion of McKechnie (1992) that consumers often base their evaluation of advice provided by an IFA upon their level of trust in that IFA, and the findings of Monti *et al* (2014) that Italian consumers purchasing shares via a co-operative bank often delegated the decision making process as they trusted their adviser.

Trustworthiness, an antecedent of trust, has been defined as an attribute possessed by the trustee that comprises of the three parsimonious components of ability, benevolence and integrity (Mayer *et al*, 1995; Colquitt *et al*, 2007; Yousafzai, 2009). This definition of trustworthiness coupled with the findings of Agarwal and Mazumdar (2008) that trustworthiness increase propensity to delegate suggest that trustworthiness may also play a role in the selection of a particular surrogate by a consumer.

The suggestion, based upon the findings of Agarwal and Mazumdar (2008), that expertise may be influential in surrogate selection is reinforced by the findings of Woodside and Davenport (1974) that greater perceived expertise in a particular salesperson drives higher levels of sales by that salesperson and also by the findings of Edwards *et al* (2011) that competence is a strong driver of surrogate selection in the context of a loss of decision making capability in a medical scenario. Furthermore, the findings of Formisano *et al* (1982) that a consumer's attitude towards a particular salesperson will improve if that salesperson is perceived as more knowledgeable or competent than others suggests that where a consumer perceives that a particular surrogate possesses a higher level of expertise than others they are more likely to select that particular surrogate.

The findings of both Edwards *et al* (2011) and Woodside and Davenport (1974) also suggest that similarity may be a factor in the selection of a surrogate. Woodside and Davenport (1974) found that the more a consumer perceived him or herself to be similar to a salesman then the greater the chances that that they would purchase from that salesman, whilst Edwards *et al* (2011) found that similarity would play a role in the selection of a surrogate in a medical scenario by around a quarter of their participants. This suggestion is reinforced by authors such as Feick and Higie (1992) who found that consumers prefer information sources who are similar to themselves when considering a variety of subjectively evaluated products and services and also by Hollander and Rassuli (1999) whose review of a variety of non-academic research and trade publications suggests that similar taste plays a role in surrogate selection.

Hollander and Rassuli's (1999) paper also suggests that likeability, happenstance, reputation, and referral to a surrogate by a friend (effectively word-of-mouth communication), amongst others, may also be factors in surrogate selection.

The suggestion regarding likeability is supported by the findings of both Formisano *et al* (1982) that the likeability and personality of a salesperson can positively affect the attitude of a consumer towards that salesman and also the claim by Alford and Sherrell (1996) that consumers often base their judgement of credence based services on the basis of their like or dislike for the service provider, and may be particularly relevant in this study as financial advice meets the definition of a credence based service.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

Whilst the suggestion regarding reputation is supported by the findings of Howcroft *et al* (2003) that image and reputation were important factors in the relationship between banks and their consumers the suggestion is contradicted by the findings of Devlin (2007) that reputation is of low importance to consumers when selecting an investment company to purchase a mortgage related endowment from.

Word-of-mouth communication can be defined as voluntary, non-commercial, person to person communication regarding brand, products and services (Gremler and Brown, 1999; Fill, 2009) and has been described as both potentially ‘very influential in any purchase decision’ (Gremler and Brown 1999, p. 273) and of particular importance in service industries where often it is the only information source considered by consumers (Gremler and Brown 1999). These findings have been supported in the context of financial services by a variety of authors including Devlin (2007, p. 638) who found that ‘approximately one in four people pay significant attention to the advice of third parties’ and by Gough and Nurullah (2009, p. 160) who found that consumers often initiated the search for an IFA on the basis of a ‘recommendation from a friend, colleague or family member.’ Taken together, this presents a strong argument that word-of-mouth recommendation may be a significant factor in the selection of an IFA.

3. Methodology

The aim of this study is to conduct an exploratory investigation into the drivers of surrogate usage and the criteria used by consumers when selecting a surrogate. When initial exploratory research of this nature is being undertaken it is common to use qualitative methodology (Harrison and Reilly 2011). Accordingly a series of semi-structured interviews were used to collect data. The use of such methodology encourages respondents to share rich descriptions of phenomenon of interest (DiCicco-Bloom and Crabtree, 2006) and contributes knowledge based upon the meaning of life experiences of respondents. Such methodology is also ‘an established approach when researching a complex area’ (Hughes 2005, p. 117) and allows a researcher to probe more deeply and gain an understanding of beliefs and attitudes than would otherwise be possible (Burgess, 1984; Arskey and Knight, 1999).

The research was undertaken using a purposive sample of individuals who had purchased a complex financial services product through an IFA within the previous 24 months with participants recruited on a convenience basis from the author’s network of contacts (see appendix one for details of participants.) A total of ten in-depth, semi-structured individual face-to-face interviews were conducted before it was felt that theoretical saturation had been achieved and no new data was emerging (DiCicco-Bloom and Crabtree 2006.)

All participants were guaranteed anonymity and confidentiality and agreed to the interviews being recorded. A discussion guide based upon the literature review was developed and used to guide the discussion (appendix two.) All interviews were recorded and subsequently transcribed verbatim.

After transcription the data was analysed using a strategy of thematic analysis outlined by Braun and Clarke (2006) and Coffey and Atkinson (1996) as this is a flexible analysis methodology independent of any particular ontological or epistemological perspective that can provide a complex, detailed and rich account of data that can be used to examine the ‘experiences, meanings and the reality of participants’ (Braun and Clarke 2006, p. 81.) Initial

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

themes were drawn from the literature review with further themes subsequently identified within the data at both a semantic and latent level using the decision tree suggested by Ryan and Bernard (2003) and the six stage process outlined by Braun and Clarke (2006.) Implicit in this method of data analysis is the removal of data from its context which carries the risk of a loss of inference or meaning (Malholtra and Birks, 2007.) Care was therefore taken to minimise this potential risk together with the risk of incorrect inference of latent meaning which can compromise both objectivity and validity (Berelson, 1952.)

The next section explores the themes that emerged from the data during analysis and identifies and discusses both the drivers of surrogate use and the criteria used by consumers to select a particular surrogate in this context.

4. Findings and discussion

4.1 The drivers of surrogate use

Whilst three participants specifically indicated that their decision to use a surrogate was in part due to their own lack of expertise, four participants indicated that their own inexperience influenced their decision and seven participants indicated that a lack of knowledge was a factor, all participants indicated in some way that expertise offered by the surrogate was a driver of their decision to use a surrogate.

“I wouldn’t have known what else to do really” (P6)

Examination of the data indicates that most participants perceived the benefits to them of this expertise to be specialised knowledge of the marketplace above and beyond their own knowledge which reflects the findings of Borgatti and Cross (2003) that individuals have a propensity to seek the advice of others with relevant expertise. Other explanations given by the participants of the benefits of the expertise offered by the surrogate included the provision of assistance with the processes involved in purchasing complex products, an increase in the chances of approval when applying for mortgage products, and in the case of the more experienced participants, advice so that they knew the right questions to ask when conducting their own product research and an endorsement of or a second opinion regarding their own opinions and decisions.

“I would rather do it myself because I don’t really want to pay someone, but I want to make sure that I ask the right questions” (P10)

Whilst the data therefore indicates that a lack of expertise on the part of the consumer is a factor that drives surrogate usage in this context in support of the findings of both Lee and Cho (2005) and Monti *et al* (2014), this study also finds that the expertise offered by a surrogate can be seen as a driver of surrogate use in its own right, particularly given that the data reveals that the five participants who either considered themselves to have the required expertise to make a purchase decision without the support of a surrogate, or evidenced such expertise through their comments, would still use a surrogate in order to benefit from the expertise offered by that surrogate. Furthermore the data suggests that the expertise on offer by a surrogate is more of a driver of surrogate use than the lack of expertise held by consumers in this context.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

“Although I have some knowledge, I am still going to use them because they have more detailed knowledge” (P8)

This finding that more experienced consumers still perceive benefits from surrogate usage and therefore utilize their services may be explained by the particularly complex nature of financial services products as this would reflect the arguments of Schrah *et al* (2006) that the propensity of individuals to rely upon the advice of others increases as complexity increases, particularly as all participants bar one indicated that the perception of product complexity was an important influence on their decision to use a surrogate. The relative importance of product complexity in surrogate usage is further demonstrated by the data as only four participants indicated that choice complexity, i.e. the large number of products on offer, influenced their decision to use a surrogate which is perhaps surprising given the ‘overwhelming choice’ (Cox 2007, p. 76) of products available in this context. Whilst the data indicates that product complexity is an important factor in the decision to use a surrogate, it should be noted that the data indicates that this factor is less important than the expertise offered by the surrogate.

A further explanation of surrogate usage particularly by more experienced participants could be the potentially severe consequences of a poor decision suggested by Harrison (2003.) Those wishing to avoid such consequences could use the expertise offered by a surrogate to mitigate against that possibility, which effectively amounts to the adoption by the consumer of the prevention focus of regulatory focus theory. Further examination of the data indicates that the adoption of a prevention focus was a driver for surrogate usage for all bar one of the participants, even where the risks were not particularly severe. Negative consequences that participants expressed a desire to mitigate against or avoid included rejection of mortgage applications, being unable to retire at the desired age, and to minimise the possibility of losing large amounts of money. The data therefore suggests that the adoption of the prevention focus of regulatory focus theory is not only a driver of surrogate usage in this context but is also prevalent, effectively suggesting that the mitigation of risk plays a substantial role in the decision to use a surrogate in this context. This suggestion is contrary to existing literature such as the findings of Cho and Lee (2006) that perceived risk had little impact upon the decision by US consumers to seek professional advice when purchasing shares.

Interestingly, the data also indicates that five participants who adopted a prevention focus also adopted the promotion focus of regulatory focus theory. This manifested itself in a variety of ways such as a desire to obtain the best levels of return on an investment, the desire for mortgage repayments to be as little as possible or the desire to reduce personal taxation to a minimal amount. It could therefore be argued that the adoption of the promotion focus of regulatory focus theory is also a driver of surrogate usage in this context.

Seven participants indicated that a significant influence upon their decision to use a surrogate was the ability of an IFA to offer the full range of products available from the many different investment and mortgage providers operating in the marketplace with one of the benefits of this being perceived by some participants as the ability to obtain a product better suited to their particular circumstances and needs.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

“I am more likely to get something that will more suit my needs and be effective for me” (P2)

Other participants emphasised the benefit of saving the time and effort that would be involved in approaching multiple product providers themselves. Closer examination of the data revealed that whilst some participants felt that they did not have the time required to undertake such tasks others indicated that they simply preferred not to when they could effectively employ someone else to do so. The saving of such time and effort can therefore be seen as both a benefit and driver of surrogate usage in this context.

“Even if I understand it, how much time have I got to devote to watching the marketplace and making the best calls? I wouldn’t have the time” (P3)

“As far as I was concerned that is what the IFA’s job is. You don’t keep a dog and bark yourself do you?” (P5)

Whilst the findings relating to the ability to offer a wide range of products and time and effort are both suggested by the literature by authors such as Solomon (1987a,) one theme to emerge from the data that is not suggested by the literature as driver of surrogate usage in this context is the complexity of the consumers own circumstances. Three participants indicated that their decision to use a surrogate was at least partially driven by their own particular circumstances that they regarded as complex and out of the ordinary. Further discussion with the three participants concerned indicated that these perceptions of complexity were all due to the nature of either their own their partner’s employment. In two cases the participants felt that these circumstances would compromise their ability to obtain a mortgage if they did not use a financial adviser, whilst the third participant perceived that he would place himself at risk of considerable financial disadvantage by not utilising the services of a financial adviser.

“As John (name changed) was self-employed it was so much more complicated, that’s why we went to an IFA.” (P1)

4.2. Selection Criteria

Participants were asked to recall each occasion that they had made initial contact with an IFA and asked to describe the circumstances surrounding that initial contact. In total participants recalled 19 incidences of initial contact and were able to recall the circumstances on 18 of those occasions.

Participants indicated that on 2 occasions they contacted the adviser as a result of promotional activity undertaken by the adviser and that on two further occasions the adviser had contacted them. On all of the remaining 14 occasions the participants indicated that they had initially contacted the financial adviser as a result of a word-of mouth recommendation. As the data indicates that on eight of these occasions the recommendation came from a colleague, friend or family member, this study confirms the findings of Gough and Nurullah (2009) that consumers often initiate their search for an adviser based upon such a recommendation. On the remaining six occasions the participants indicated that the recommendation came from a business entity such as an estate agent or accountant. Whilst such recommendations do not strictly meet the criteria given earlier for word-of-mouth

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

communication in that they came from a commercial source, when added to the eight occasions where the definition was met, they clearly confirm the importance of word-of-mouth communication in this context as suggested by authors such as Harrison (2003) and Devlin (2007.)

This study therefore finds that word-of-mouth communication plays a significant role in the selection of a surrogate in this context not only confirming the suggestion by Hollander and Rassuli (1999) that word-of-mouth plays a role in surrogate selection, but additionally as a financial adviser could perhaps also be described as a professional, this study may also explain the reason behind the reliance of professionals upon personal recommendations and positive word-of-mouth communication as suggested by Alford and Sherrell (1996) as it indicates that such word-of-mouth recommendations could be the origin of a substantial amount of business for such professionals.

“If someone had said to me go and see (name of adviser), he works at (name of company) because he will give you some good advice then I would go.” (P9)

Given this finding showing the importance of word-of-mouth communication in this context, it is perhaps surprising that the data gives little indication that a good reputation held by a surrogate plays a role in the decision by a consumer to use a particular surrogate, particularly as endorsement by a trusted third party which is effectively a word-of-mouth recommendation, has been found to give rise to a good reputation (Mukherjee and Nath, 2003.) Only one participant specifically indicated that they would look for a financial adviser with a good reputation. This finding is contrary to the suggestion based upon the findings of Howcroft *et al* (2003) relating to the role played by reputation in the relationship between consumers and their banks, but rather follows the suggestion by Devlin (2007) that reputation was of little significance to consumers when selecting an investment company to purchase a mortgage related endowment policy. However, it should be noted that whilst the data indicates that a good reputation is not of particular importance to a consumer when selecting a surrogate, a closer examination of the data also clearly indicates that several participants were keen to avoid engaging a financial adviser with a poor or bad reputation. In a similar manner, participants indicated that image was of little importance to them when selecting a surrogate.

Given the earlier findings that the expertise offered by a surrogate was a major driver of surrogate usage, it is not surprising that the data indicates that the perception by participants that a financial adviser was generally competent was an influential factor in their decision to use that particular adviser. This study therefore conforms to the findings of Edwards *et al* (2011) that competency plays an important role in surrogate selection in a medical setting, the expectations outlined earlier based upon the findings of both Agarwal and Mazumdar (2008) concerning the ability of the surrogate and also the findings of Woodside and Davenport (1974) that a perceived higher level of expertise in a salesperson increases the likelihood that consumers will make a purchase from that particular salesperson.

All participants indicated that trust played an important role in their decision to use a particular surrogate with several indicating that the perception that they could trust a

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

particular surrogate was the most important factor in their decision to use that particular surrogate.

“I was going to go ahead because I trusted him” (P5)

Closer examination of the data indicates that this was particularly the case where a word-of-mouth recommendation had been made with the data carrying the implication that the participant trusted the surrogate because the person making the recommendation trusted them. One potential explanation for this is Heider’s balance theory (1946) whereby if one member of a dyad holds an attitude regarding the attributes of a particular third party the other member of the dyad will move towards that position in order to avoid dissonance between them.

“If someone else is recommending because they have had years of dealing with somebody then you are more likely to start building that trust before you have even seen them.” (P9)

The finding that trust is important in this context is perhaps unsurprising given the importance of competence identified earlier, as competence or ability is one of the three components of trustworthiness which is itself an antecedent of trust. With regard to the other two components integrity and benevolence, closer inspection of the data reveals that only one participant specifically raised the issue of benevolence unprompted. When prompted, other participants indicated that benevolence was of importance, but closer analysis of the data indicates that they held an assumption that this was an intrinsic part of the role of a surrogate and was therefore not part of their decision to use a particular surrogate. The data does however indicate that integrity was of importance to participants. Specifically, openness and honesty were particularly valued by several who indicated that his had been an influence upon their decision to use a particular surrogate.

“I did quite like him and he’s fairly candid and he didn’t over promise
“(P7)”

This study therefore finds that the perception that a surrogate is trustworthy is an important factor in surrogate selection in line with the suggestion based upon the findings of Aggarwal and Mazumdar (2008) relating to the propensity to use a surrogate.

The data indicates that likeability is a factor in the decision of consumers to use a particular surrogate confirming the expectations based upon the findings of Formisano *et al* (1982) that likeability improved a consumer’s attitude towards a particular salesman and the suggestion by Alford and Sherrell (1996) that consumers can judge a credence service on the basis of their like or dislike of the service provider. Further examination of the data reveals that of the eight participants who indicated that likeability was a factor in their decision to use a particular surrogate, three indicated that it was of such importance that they would not have proceeded if they had not liked the surrogate in question.

“If I didn’t like him I probably wouldn’t work with him, that’s the way I do things.” (P8)

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

Whilst the data relating to both similarity and personality shows that both have some influence in this context, neither are shown to be of particular importance. However, interestingly, the data relating to similarity also shows that several participants indicated that due to their own perceived character defects, they would not wish to take financial advice from someone similar to themselves.

“In fact I don’t want them to be like me, because I am useless with figures”
(P2)

The findings of this study therefore do not conform to the findings of authors such as Edwards *et al* (2011) or Feick and Higie (1992) that similarity can have a positive effect in this context, but rather that similarity can have either a positive or negative effect upon the selection of a particular surrogate.

The role of happenstance in surrogate selection as suggested by Hollander and Rassuli (1999) is demonstrated as relevant by both the two occasions when participants were approached by a financial adviser at a time when they were considering purchasing a financial services product and also by comments made by several participants indicating that they had first encountered their financial adviser in either a social or business setting.

One additional theme emerged from the data suggesting a further factor of convenience as an influence upon surrogate selection with seven participants indicating that it had been a consideration for them. This was not suggested by the literature and the definitions of convenience included someone who either lived or had an office locally, was easy to contact by telephone, or that it was simply less hassle to use an IFA.

One further theme of particular interest not suggested by the literature to emerge from the data indicates that none of the participants had evaluated more than one surrogate and then chosen between them, but rather had chosen to proceed once they had evaluated one particular surrogate as acceptable. Only two participants gave an explanation for this lack of comparison, with both indicating that they would not have known which criteria to use when judging between the competing surrogates.

5. Conclusion

This exploratory study has empirically examined the subject of surrogate usage in the context of the use and selection by a UK consumer of an IFA and has identified various drivers of surrogate usage and selection criteria in this particular context. The qualitative data acquired by this study has therefore generated further understanding of this subject area and responded to the identification of the need for such research by authors including Hollander and Rassuli (1999) and Aggarwal and Mazumdar (2008.)

5.1 Surrogate use

Whilst a consumer’s own lack of knowledge, expertise and experience are demonstrated by the data to play a role in the decision to use a surrogate, the most important driver of surrogate usage shown by this study is the expertise offered by the surrogate. The study found that this was the case even where participants felt that they possessed the required expertise themselves as the advice on offer effectively offered an opportunity to acquire an

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

endorsement of their own purchasing decisions. Whilst both the complexity of the products and the number of different products available are also shown to be drivers of surrogate use in this context, the study found that product complexity was of more concern to participants which perhaps explains the high value placed upon surrogate expertise in this context.

However the influence of the number of products available should not be underestimated as this study found that the ability of the financial adviser to offer the full range of products available across the marketplace together with the implicit reduction in time and effort afforded to the consumer resulting from surrogate usage are also demonstrated to be factors in the decision to use a surrogate.

Whilst these findings were suggested by the literature, the finding that the complexity of the consumer's circumstances can also drive surrogate usage was not. The data suggests that such complexity arose due to the employment circumstances of the participants concerned and may provide further explanation of why surrogate expertise is so highly valued in this context.

Whilst the finding that the desire to avoid negative consequences, effectively the prevention focus of regulatory focus theory, is both a driver of surrogate usage and is prevalent in this context is suggested by the literature, the finding that the desire to accrue benefits, effectively the promotion focus of regulatory focus theory, can also drive surrogate usage together with the finding that the same participant can hold both a prevention and promotion focus in this context were not suggested by the literature.

Taken together the findings of this study indicate that consumers generally use a surrogate in this context for utility reasons with only one participant hinting at the possibility of gaining symbolic benefits.

5.2 Surrogate selection

The findings of this study confirm that word-of-mouth communication plays a significant role in the selection of a surrogate in this context. The finding that consumers rarely evaluate and compare different surrogates in this context, which is not suggested by the literature, reinforces this importance as it suggests that a consumer will engage the services of a recommended surrogate unless there is very specific reason to reject that particular surrogate.

Given the importance of word of mouth communication found by this study the finding that good reputation has little influence upon the selection of a particular surrogate is surprising, not only as it is contrary to suggestions drawn from the literature, but also because it is implicit in a word-of-mouth recommendation that the recommended party holds a good reputation. The data shows that participants were far more concerned to avoid financial advisers with a poor reputation. This finding may be explained by the negative publicity surrounding financial advice in the past over such issues as the miss-selling of pensions noted by authors such as Ennew *et al* (2011) and the perception that some financial advisers have sold products on the basis of commission payable rather than the best interests of the consumer noted by Inderst and Ottaviani (2012.).

As suggested by the literature the perception by a consumer of either trust or trustworthiness is shown by this study to be influential in the selection of a particular surrogate with the data

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

showing that the ability component of trustworthiness is of particular importance. This finding is perhaps not surprising given the central importance of the expertise offered by the surrogate in the decision to use a surrogate in this context demonstrated by this study.

With regard to other potential selection criteria suggested by the literature review, this study found that both likeability and happenstance can be influential upon a consumer when selecting a surrogate, whilst personality and image are of little influence. Similarity was shown to be a double-edged sword that can have either a positive or negative effect. One further factor to emerge from the data not suggested by the literature review was convenience.

5.3 Implications for managers

This study clearly demonstrates the central role and importance of the expertise offered by the surrogate in this context. Managers should therefore ensure that their communication with potential clients reflects this. In addition this study also demonstrates the importance of word-of-mouth communication in this context with the implication that managers should focus upon factors that encourage such communication including high standards of service both during and after the advice process and the generation of customer satisfaction.

5.4 Limitations and future research

Whilst this study found that the adoption of the prevention focus of regulatory focus theory is prevalent in this context, this study also demonstrates that a particular consumer can adopt both a prevention and a promotion focus in this context. Closer examination of the data suggests that these findings may be related to the nature of the product being considered by the consumer, i.e. prevention focus for mortgages and promotion focus for investments, however the data is inconclusive on these issues. This therefore presents an opportunity for further research to establish the drivers of both prevention and promotion focus together with the reason behind the prevalence of prevention focus in this context.

Whilst this study has contributed to knowledge by providing insight into both surrogate usage and the selection criteria used by consumers to choose a surrogate in the context examined, due to the small convenience sample used and the exploratory qualitative nature of the study, the findings should not be generalised. This in itself presents opportunities for both wider quantitative research with a larger non-convenience sample and also into other contexts.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

6. References

- Arskey, H. and Knight, P. 1999. *Interviewing for social scientists*. London: Sage
- Association of British Insurers. 2014. UK Insurance – Key Facts 2014. <https://www.abi.org.uk/Insurance-and-savings/Industry-data/Key-Facts-2014>. Accessed 15/01/2015.
- Aggarwal, P. and Mazumdar, T. 2008. Decision delegation: A conceptualization and empirical investigation *Psychology & Marketing* 25 (1), pp. 71-93.
- Alford, B. and Sherrell, D. 1996. The role of affect in consumer satisfaction judgments of credence-based services. *Journal of Business Research*. 37(1), pp. 71-84.
- Berelson, B. 1952. *Content Analysis in Communication Research*. New York: Macmillan Publishing Co Inc.
- Borgatti, S. and Cross, R. 2003. A relational view of information seeking and learning in social networks. *Management Science*. 49(4), pp. 432-435.
- Braun, V. and Clarke, V. 2006. Using thematic analysis in psychology. *Qualitative Research in Psychology*. 3(2), pp. 77-101.
- Burgess, R. 1984. *In the field*. London: Unwin Hyman Ltd.
- Coffey, A. and Atkinson, P. 1996. *Making sense of qualitative data*. London: Sage.
- Colquitt, J., Scott, B. and Le Pine J. 2007. Trust, trustworthiness and trust propensity: A meta-analytic test of their unique relationships with risk taking and job performance. *Journal of Applied Psychology*. 92(4), pp. 909-927.
- Cox, P. 2007. Should a financial services provider care about trust? An empirical study of retail saving and investment allocations. *Journal of Financial Services Marketing*. 12(1), pp. 75-87.
- DiCicco-Bloom, B. and Crabtree, B. 2006. The qualitative research interview. *Medical Education*. 40 (4), pp. 314-321.
- Devlin, J. 2007. Complex services and choice criteria: an example from the life assurance market. *Journal of Marketing Management*. 23(7-8), pp. 631-650.
- Edwards, S., Brown, P., Twyman, M., Chrisitie, D., and Rakow, T. 2011. A qualitative investigation of selecting surrogate decision-makers. *Journal of Medial Ethics*. 37(10), pp. 601-605.
- Ennew, C. 1992. Consumer attitudes to independent financial advice. *International Journal of Bank Marketing*. 10(5), pp. 13-18.
- Ennew, C., Kharouf, H. and Sekhon, H. 2011. Trust in UK financial services: A longitudinal analysis. *Journal of Financial Services Marketing*. 16(1), pp. 65-75.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

- Feick, L. and Higie, R. 1992. The effects of preference heterogeneity and source characteristics on ad processing and judgements about endorsers. *Journal of Advertising*. 21(2), pp. 9-24.
- Fill, C. 2009. *Marketing Communications, Interactivity Communities and Content*. Harlow: Pearson Education.
- Formisano, R., Olshavsky, R. and Tapp, S. 1982. Choice strategy in a difficult task environment. *Journal of Consumer Research*. 8(4), pp. 474-478.
- Forsythe, S., Butler, S., and Schaefer, R. 1990. Surrogate usage in the acquisition of women's business apparel. *Journal of Retailing*. 66(4), pp. 446-469.
- Gabel, T. 2005. Toward and expanded theory of surrogate consumption: Consideration of consumer choice and choicelessness. *Academy of Marketing Science Review* 2005(1), pp. 1-29.
- Gough, O. 2005. Independent financial advisers - why they remain the strongest distribution route for pensions. *Service Industries Journal*. 25(5), pp. 709-720.
- Gough, O. and Nurullah, M. 2009. Understanding what drives the purchase decision in pension and investment products. *Journal of Financial Services Marketing*. 14 (2), pp. 152-172.
- Gremler, D. and Brown, S. 1999. The loyalty ripple effect. *International Journal of Service Industry Management*. 10(3), pp. 271-293.
- Harrison, R. and Reilly, T. 2011. Mixed methods designs in marketing research. *Qualitative Market Research: An International Journal*. 14(1), pp. 7-26.
- Harrison, T. 2003. Understanding the Behaviour of financial services consumers: A research agenda. *Journal of Financial Services Marketing*. 8(1), pp. 6-9.
- Harrison, T., Waite, K., and White, P. 2006. Analysis by paralysis: the pension purchase decision process. *International Journal of Bank Marketing*. 24 (1), pp. 5-23.
- Heider, F. 1946. Attitudes and cognitive organization. *Journal of Psychology*, 21, pp. 107-112.
- Higgins, T. 1998. Promotion and prevention: Regulatory focus as a motivational principal. In: Zanna, M. ed. *Advances in experimental psychology*. New York: Academic Press, pp. 1-46.
- Hollander, S. and Rassuli, C. 1999. Shopping with other people's money: The marketing management implications of surrogate-mediated consumer decision making. *Journal of Marketing*. 63 (2), pp. 102-118.
- Howcroft, B., Hewer, P. and Hamilton, R. 2003. Banker-customer interactions in financial services. *Journal of Marketing Management*. 19(9), pp. 1001-1020.
- Inderst, R. and Ottaviani, M. 2012. How (not) to pay for advice: A framework for consumer financial protection. *Journal of Financial Economics* 105(2), pp. 393-411.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

Laing, A. 1995. The marketing of financial services to independent distributors. *Journal of Services Marketing*. 9(4), p. 6-18.

Lee, J. and Cho, J. (2005) Consumers' Use of information intermediaries and the impact on their information search behavior in the financial market. *Journal of Consumer Affairs*. 39 (1), pp. 95-120.

Malhotra, N. and Birks, D. 2007. *Marketing Research: An Applied Approach*. Harlow: Pearson Education 3rd edition.

Mayer, R., Davis, J. and Schoorman, F. 1995. An integrative model of organizational trust. *Academy of Management Review*. 20(3), pp. 709-734.

McKechnie, S. 1992. Consumer buying behaviour in financial services: An overview. *International Journal of Bank Marketing*. 10(5), pp. 5-39.

Monti, M., Pelligra, V., Martignon, L., and Berg, N. 2014. Retail investors and financial advisors: New evidence on trust and advice taking heuristics. *Journal of Business Research*. 67(8), pp. 1749-1757

Mukherjee, A. and Nath, P. 2003. A model of trust in online relationship banking. *International Journal of Bank Marketing*. 21(1), pp. 5-15.

Price, L. and Feick, L. 1984. The role of interpersonal source of external search: An informational perspective. *Advances in Consumer Research*. 11 (1), pp. 250-255.

Rajamma, R. and Pelton, L. 2009. An empirical examination of consumer's procurement of pharmaceutical products via online retail channels. *Psychology and Marketing*. 26(10), pp. 865-887.

Ryan, G. and Bernard, R. 2003. Techniques to identify themes. *Field Methods*. 15(1), pp. 85-109.

Schrah, G., Dalal, R., and Snieszek, A. 2006. No decision-maker is an island: Integrating expert advice with information acquisition. *Journal of Behavioral Decision Making*. 19(1), pp. 43-60.

Sekhon, H., Ennew, C., Kharouf, H., and Devlin, J. 2014. Trustworthiness and trust: influences and implications. *Journal of Marketing Management*. 30 (3-4), pp. 409-430.

Sharma, N. and Patterson, P. 1999. The impact of communication effectiveness and service quality on relationship commitment in consumer, professional services. *The Journal of Services Marketing*. 13(2), pp. 151-170.

Solomon, M. 1986. The missing link: Surrogate consumers in the marketing chain. *Journal of Marketing*. 50(4), pp. 208-218.

Solomon, M. 1987a. The wardrobe consultant: Exploring the role of a new retail partner. *Journal of Retailing*. 63(2), pp. 110-128.

Solomon, M. 1987b. The role of the surrogate consumer in service delivery. *Services Industry Journal*. 7 (3) pp.292-307.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

Stern, B., Solomon, M., and Stinerock, R. 1992. Surrogate money managers in the 1990's: Marketing strategy for financial services retailers. *The Services Industry Journal*. 12(1), pp. 78-96.

Woodside, A. and Davenport, W. 1974. The effect of salesman similarity and expertise on consumer purchasing behavior. *Journal of Marketing Research*. 11(2), pp. 198-202.

Yousafzai, S., Pallister, J. and Foxall, G. 2005. Strategies for building and communicating trust in electronic banking: A field experiment. *Psychology and Marketing*. 22(2), pp. 181-201.

Yousafzai, S., Pallister, J. and Foxall, G. 2009. Multi-dimensional role of trust in internet banking adoption. *The Services Industries Journal*. 29(5), pp. 591-605.

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

Appendix 1 – Sample Frame

The following table gives further details of each of the participants.

| Participant number | Gender | Ethnicity | Age Group | Status | Children | Occupation |
|---------------------------|---------------|------------------|------------------|---------------|----------------------|-------------------|
| Participant one | Female | Br White | Early 30's | Married | None | Marketing Manager |
| Participant two | Male | Br White | Early Sixties | Married | All adult | Chaplain |
| Participant three | Male | Br White | Early 30's | Married | 2 very young | Manager |
| Participant four | Male | Br White | Early 30's | Single | None | Manager |
| Participant five | Male | Br White | Early 30's | Married | 1 very young, 1 teen | Paramedic |
| Participant six | Female | Br White | Late 70's | Widowed | All adult | Retired Teacher |
| Participant seven | Male | Br White | Early 40's | Married | 2 very young | House Husband |
| Participant eight | Male | Br White | Early 40's | Single | None | Business Owner |
| Participant nine | Male | Br White | Late 40's | Married | 2 late teens | Regional Manager |
| Participant ten | Male | Br Black A/C | Early 40's | Married | 2 very young | Project Manager |

The drivers of surrogate usage and selection criteria: The use of Independent Financial Advisers by UK consumers

Appendix two – interview agenda

Section one – general information

- Gender, Age, Occupation, Ethnic background, Marital Status
- Number of advisers used and when
- Type of adviser used i.e. bank, IFA, well known company etc

Section two – initial contact and decision to use a surrogate

- Who initiated contact, participant or consumer and how?
- What influenced you to contact an IFA?
 - Experience/Lack of experience?
 - Knowledge/Lack of knowledge?
 - Expertise/Lack of expertise?
 - Complex products?
 - Number of choices?
 - Expertise offered by the surrogate?
 - Regulatory focus theory/Desire to avoid risk/negative outcome
 - Other reasons?

Section three – surrogate selection

- If you approached the IFA where/how did you find out about the IFA?
 - Advert or other promotional activity?
 - Recommendation of a friend, family member or colleague?
 - Recommendation of someone else?
 - Any other means?
- Describe the circumstances
- Did you trust the IFA? Why?
- Was the IFA trustworthy? Why?
- What role did trust/trustworthiness play in your decision to use that particular IFA?
- What other factors made you chose that particular IFA?
 - Did you like him or her?
 - Was he or she similar to you? In what ways? Was that important to you?
 - What about their personality? What did you like? Was that important to you?
 - Did they have a good reputation? If so was this important to you? Why?
- How did you choose between IFA's?
- Any other factors that influenced your decision?