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IMPACT OF SERVICE QUALITY OF STOCK TRADING BROKERAGE FIRMS ON CUSTOMER SATISFACTION

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ABSTRACT

The paper seeks to understand the impact of service quality of stock trading brokerage firms on customer satisfaction. There are many factors that are used to measure the service quality for trading brokers & all of them has some or the other effects on customer satisfaction. The common service quality factors for stock trading brokerage services are mentioned below -

- Customer's convenience and their interests
- Satisfaction in account maintenance policies
- Quality services of the firm
- Risk management system
- Employees behavior and their response to clients
- Office ambience and infrastructure
- Satisfaction in reporting information to clients
- Redressal mechanisms
- Satisfaction with optimistic projections to clients
- Satisfaction with security services to clients

This paper seeks to address only two key service quality measurement factors which impacts the customer satisfaction i.e. Risk Management System & Redressal Mechanism.

***KEYWORDS**: Customer Satisfaction, Service Quality,* Risk Management, Security Services.

Introduction

The stock broking industry is a service-oriented industry where brokers act as agents for investors when a security is bought or sold and are compensated with a commission. Investors would not hesitate to switch to alternative brokerage houses if they do not obtain satisfaction. Providing quality service and hence customer satisfaction should thus be recognised as a key strategy and a crucial element of long-run success and profitability for stock broking businesses.

SERVQUAL

To measure customer satisfaction with different aspects of service quality, Parasuraman, Zeithaml and Berry (1988) developed a survey research instrument called SERVQUAL. It is based on the premise that customers can evaluate a firm's service quality by comparing their perceptions of its service with their expectations.

Stock Trading

Shares/Stock trading is the buying and selling of company stock or derivative products based on company stock in the hope of making a profit. The trading of shares is one of the most popular and best-known markets in investing, alongside forex and commodities. A stock trader or equity trader or share trader is a person or company involved in trading equity securities.

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Stock traders may be an agent, hedger, arbitrageur, speculator, stockbroker or investor. A stock investor is an individual or company who puts money to use by the purchase of equity securities, offering potential profitable returns, as interest, income, or appreciation in value (capital gains). This buy-and-hold long term strategy is passive in nature, as opposed to speculation, which is typically active in nature. Many stock speculators will trade bonds (and possibly other financial assets) as well.

Review of Literature

- **Service Quality**

Quality is the cornerstone for success in any business and is perceived as a key factor in acquiring and sustaining competitive advantage (Hampton, 1993; Shearden, 1988). Providing service quality improves satisfaction of customers and this is believed to lead to favourable behavioural intentions and to ultimately affect business success (Iacobucci, Grayson and Ostrom, 1994). Establishing service quality may be the only way of differentiating oneself. That is why many existing businesses are using enhanced service quality to position them more competitively both domestically and globally (Parasuraman *et al*., 1988; Brown and Swartz, 1989).

The most widely accepted measurement scale for service quality is the SERVQUAL instrument developed by Parasuraman, Zeithaml and Berry (PZB) (1988). They define service quality as the "difference between what a service company should offer and what it actually offers" or the discrepancy between expectations and perceptions of the service performance.

To measure customer satisfaction with different aspects of service quality, Parasuraman, Zeithaml and Berry (1988) developed a survey research instrument called SERVQUAL. It is based on the premise that customers can evaluate a firm's service quality by comparing their perceptions of its service with their expectations. Since its inception, the SERVQUAL has been seen as a generic measurement tool by both academics and practitioners, which can be applied across a broad spectrum of service industries. The SERVQUAL instrument is based on five service quality dimensions that include reliability, responsiveness, assurance, empathy and tangibles (Zeithaml and Bitner, 2000) and they provide the basic "skeleton" underlying service quality, which is represented as a multidimensional construct.

Replication studies done by other investigators were failed to support the five-dimensional factor structure as was obtained by PZB (1988) and PBZ (1991) in their development of SERVQUAL. For example, McDougall and Levesque's study (1994) revealed only three underlying dimensions of service quality: tangibles, contractual performance (outcome) and customer-employee relationships (process). Other studies have indicated the possibility of two (Babakus and Boller, 1992 – in a public utility sector) to nine (Carman, 1990 – in a dental school patient) distinct dimensions underlying the service quality construct. Because some determinants of perceived service quality are generic while others are industry- or situation-specific, Babakus and Mangold (1989) argue that the instability of the dimensionality of SERVQUAL is probably due to the type of service sector under investigation.

- **Customer Satisfaction**

The concept of customer satisfaction has been used by consumer behaviour and marketing researchers. Researchers consider customer satisfaction as a part of consumer behaviour whereas practitioners treat it as a focal point for designing successful marketing strategies. The majority of approaches view customer satisfaction as a cognitive process (Bloemer and Poiesz, 1989). The widespread approach to the definition of customer satisfaction is therefore that it is "the accumulated experience of a customer's purchase and consumption experiences" (Andreassen, 1995). Klaus (1985) defines satisfaction as "the customer's subjective evaluation of a consumption experience based on some relationship between the customer's perceptions and objective attributes of the product". Thus, customer satisfaction is treated as an "abstract and theoretical phenomenon, it can be measured as a weighted average of multiple indicators" (Johnson and Fornell, 1991, in Andreassen, 1995).

If the performance exceeds expectations, the customer is highly satisfied or delighted. Despite the fact that the definition varies, the common factor is that satisfaction is a post-consumption evaluative judgement (Westbrook and Oliver, 1991). Satisfaction is believed to strengthen beliefs and attitudes whereas dissatisfaction may create negative beliefs and attitude towards the object (Assael, 1987). A revised attitude appears as a result of satisfaction or dissatisfaction with the experience (Mayo and Jarvis, 1981; Oliver, 1981; Moutinho, 1987). The result would be an increase or decrease in the likelihood of repeat business for the investment. Moreover, the intensity of an attitude may influence the level of satisfaction with an object. In other words, if the attitude is positive, satisfaction results. Similarly, dissatisfaction is expected when the attitude is negative. As such, as stated earlier, satisfaction or dissatisfaction with a previous experience is crucial because it may affect expectations for the next purchase (Westbrook and Newman, 1978). The next difference could be that attitude formation does not require any direct experience with the object, but satisfaction or dissatisfaction is a direct result of experience. In the same line of thought, satisfaction can be defined as an attitude-like judgement following a purchase act or series of consumer-product interactions (Lovelock, 2001). Most studies are based on the theory that the confirmation or disconfirmation of pre-consumption product standards is the essential determinants of satisfaction. In contrast, a positive disconfirmation exists if service is better than expected, thereby resulting in customer satisfaction, positive word of mouth publicity and customer retention (Hoffman and Bateson, 1997). A simple confirmation occurs if service is as expected. When there is substantial positive disconfirmation plus pleasure and an element of surprise, then customers are likely to be delighted.

Objectives of the Study

- To know whether the Risk management system has any impact on the customer satisfaction.
- To know whether Redressal mechanism has any impact on the customer satisfaction.

Limitations of the Study

- The Primary Data collection has been done through the selected customers dealing with Stock Trading Brokers of Rajasthan only.
- The study is done on sample selected from the state of Rajasthan only.
- This paper is non - exhaustive in terms of factors that are considered for risk management & redressal mechanism analysis.

Findings of the Study

- **Factor 1 (Risk Management System)**

Ho_1: *Risk management system has no significant impact on the customer satisfaction.*

H_{A1}: *Risk management system has significant impact on the customer satisfaction.*

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991[a]	.982	.981	.170
a. Predictors: (Constant), P42, P34, P31, P33, P36, P32				

Table: Model Summary of Factor 6

The above table presents the model summery of the regression model. It can be observed that the adjusted R value is.981 which means that 98.1 % of the variation in dependent variable i.e. customer satisfaction is explained by the independent variable (variables under risk management system).

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	305.802	6	50.967	1758.740	.000[b]
	Residual	5.593	193	.029		
	Total	311.395	199			
a. Dependent Variable: dep b. Predictors: (Constant), P42, P34, P31, P33, P36, P32						

Table: ANOVA

The significance value in the model is coming out to be .000 that is less than .01 (10% significance level). The high F value is observed in model that is 1758.74. Based on the high F value and significance level of .000, the researcher has rejected the null hypothesis, and it is concluded that risk management system has significant impact on customer satisfaction.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.045	.039		1.175	.241
	P31	-.017	.018	-.018	-.968	.334
	P32	-1.040	.172	-1.047	-6.056	.000
	P33	.989	.016	.982	63.248	.000
	P34	-.006	.010	-.006	-.616	.539
	P36	.054	.020	.054	2.633	.009
	P42	1.007	.172	1.013	5.865	.000
a. Dependent Variable: dep						

Table: Coefficient Analysis

As per the statistics, 4 out of 6 variables under factor 6 are significant. P32 which depicts "The staff is skill enough to carry out the mechanism of risk management" has significant positive impact on the customer satisfaction (significance value .000). P33 which depicts "Calculation of modified duration of the portfolio (weighted average maturity), value at risk calculations, and daily earnings at risk calculations are some of the risk mitigation tools the firm use" has positive significant impact on the customer satisfaction (significance value .000). It can be said that customer's satisfaction increases as brokerage firm uses risk strategies to mitigate the risk. Various modern risk mitigation strategies allows firms to bring higher returns on the investment of the customers. P36 which depicts "The firm adheres to compliance policies, such as know your customer and anti-money laundering policies" also has positive significant impact on the level of customer satisfaction (significance value .006). This is because when company adheres to the compliance policies of trading, the customer is able to maintain its trust in the company thereby enhancing his satisfaction level. P42 which depicts "The firm uses extended (or long-term) debt maturities to lower funding risks" has significant positive impact on customer satisfaction. Since the significance value is .000 and the standardized coefficient value is 1.013 which is highest among all therefore, it impact the customer's satisfaction the most. Any strategy of the firm to lower or mitigate the associated risk motivates the customer to open an account with the brokerage firm. This enhances the level of customer satisfaction. On similar ground, a study based on customer satisfaction with the risk management practices of the firm, it was found that risk mitigation strategies of the firms plays an important role in building the trust of customers. The customers being risk averse are always looking for investment associated with low risk. Therefore, the mitigation strategies by the firm satisfy the customer's needs (Krishnan, Ramaswamy, Damien, Meyer, & Paul, 1999).

- **Factor 2: Redressal Mechanism**

Ho: Redressal mechanism has no significant impact on the customer satisfaction.

H_{A2}: Redressal mechanism has significant impact on the customer satisfaction.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.995[a]	.989	.989	.130
a. Predictors: (Constant), P41, P40, P39, P38, P37				

Table: Model Summary of Factor 7

The above table presents the model summery of the regression model. It can be observed that the adjusted R value is.989 which means that 98.9 % of the variation in dependent variable i.e. customer satisfaction is explained by the independent variable (variables under redressal mechanism).

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	308.102	5	61.620	3630.054	.000[b]
	Residual	3.293	194	.017		
	Total	311.395	199			
a. Dependent Variable: dep b. Predictors: (Constant), P41, P40, P39, P38, P37						

Table: ANOVA

The significance value in the model is coming out to be .000 that is less than .01 (10% significance level). The high F value is observed in model that is 3630.054. It can be concluded that model is fit. Based on the high F value and significance level of .000, the researcher has rejected the null hypothesis, and it is concluded that Redressal mechanism has significant impact on customer satisfaction.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.039	.024		-1.663	.098
	P37	.188	.051	.186	3.656	.000
	P38	.553	.037	.549	15.067	.000
	P39	.210	.050	.208	4.183	.000
	P40	.005	.009	.005	.537	.592
	P41	.059	.025	.059	2.418	.017

a. Dependent Variable: dep

Table: Coefficient Analysis

The above is the coefficient analysis. As per the statistics, 4 variables out of 5 are significant. P37 which depicts “The firm used various models for measuring and reporting market risks” has significant positive impact on the customer satisfaction. Appropriate measures and tools to mitigate risk are always helpful in improving the level of satisfaction of the customers. P38 which depicts “The firm has capital adequacy to absorb the impact of market-related factors and interest rate shocks” has significant impact on the customer satisfaction. Since the significance value is .000 and the standardized coefficient value is 15.067 which is highest among all therefore, it impacts the customer satisfaction the most. It can be said that as appropriateness of capital adequacy of the brokerage firm increases, the customer satisfaction level also increases. In a study conducted by Ahamed (2011), it was found that trading in the global market sustains only when the firm has adequate capital. The market is generally marked by number of uncertain events and shocks therefore, adequate amount of capital is extremely important to sustain and satisfy the customers. P 39 that depicts “The firm has adequate systems in place to prevent traders from exceeding limits or breaching securities she is allowed to invest in” has significant positive impact on the customer satisfaction (significance value .000). This is because strict compliance against unethical practices like breaching traders allows customers to maintain their trust in the firm thereby enhancing the level of satisfaction. P41 which depicts “The firm is better managed to handle the inherent volatility by diversifying into different segments” has significant impact on the customer satisfaction (significance value .017). Diversification is the best practice that can be adopted by the brokerage firm to mitigate the amount of risk associated. This results in the higher return to the investors who thereafter feels satisfied.

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