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### Exploring Advantages & Disadvantages Paradox of Customers Education Issue and Their Expertise and Loyalty in Iran's Investment Services Stock Broker Firms

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#### ABSTRACT

The purpose of this study is to consider the dynamics of customer education via investigating relationship between customer's education and expertise and their combined effects on customer's loyalty in investment services requiring high participation in active brokerage firms of Tehran Stock Exchange. This paper provides a conceptual model consisting of research objectives, as a series of testable hypotheses. Based on survey results, customer loyalty has positive and significant relationship with technical service quality (first hypothesis), functional service quality (second hypothesis), and customer training (third hypothesis). However, contrary to expectation customer expertise had not negative relationship with customer loyalty (fifth hypothesis). According to study findings client training was correlated positively with customer expertise (fourth hypothesis). The main effect of customer training on loyalty was statistically significant, however, this subject was not disappeared when client expertise entered third equation. Finally, positive significant interaction coefficient between technical service quality and expertise indicates that positive effect of technical service quality on customer loyalty was indeed stronger when customer's expertise was high (sixth hypothesis). In contrast, and consistent with predictions, the relationship between functional service quality and customer expertise was significant and negative, which indicates a positive relationship between functional service quality and customer loyalty, while increasing customer expertise decreases (seventh hypothesis).

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## INTRODUCTION

Service organizations in search of sustainable competitive advantage follow the methods to attract the customers. These methods are currently outstanding in everywhere and in lots of relationship-based innovations such as communication managers, personal web pages, product bundling and etc. Another ready opportunity found in lots of broker firms is joint production (or unity) of broker firm and customer (the concept of customer interference in making and delivering services). From long time ago, corporate brokers have known this collaboration and a degree of collaboration are expected nearly from all of the customers. However, such cooperation traditionally is an issue which service broker firms need to "manage" it. Yet, in competitive atmosphere of today's market, service broker firms know that differentiating the services of different broker firms is difficult. Customer's participation in producing and providing services is considered widely as a source of value making [15,50,63] So increasing the customer participation creates a tool through which broker firms can gain deeper opportunities in special market sections by increasing customization.

The logical conclusion is that investment service broker firms are searching every opportunity to train their customers. Ofcourse, customer training activities are familiar for most of investment service broker firms which have used it as a tool to strengthen and differentiate the products (e.g. seminars for customers, print blogs and web sites). So it is supposed that there are lots of potential problems in relation to customer training ; the more service providers try to present values and get closer to their customers through training and helping them to use their services, the more they are subject to lose them. More training and hence expertise, equip customers with tools and skills to refer to switching firms" for gaining competitive offers, (e.g. cheaper investment advice

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in other places). Training causes the reduction of the information imbalance between broker firm and customers [59]. So, the expert customers, perceive less risk when referring to switching firms due to having more self confidence in evaluating alternative competitive options [38]. In other words, while customer training primarily attracts the customers to the organizations, it can also equip them to leave the broker firms by reducing their perceived costs in referring to switching firms. In other words, there is an (advantages and disadvantages) paradox in customer training.

The present study serves two purposes. First, is to consider the customer training dynamism through investigating the relationship between training and customer expertise and its mixed effects on customer loyalty in the investment services regarding high cooperation in active broker firms in Tehran Stock Exchange. Second, the service context where customer training initiatives are delivered is considered. Especially, we deal with handling the moderating effects of increasing the levels of customer expertise (as a result of customer training) on relative importance of technical quality of the services (what is delivered) and the functional quality of the services (how it is provided) to determine the loyalty decision. To this end, some points for investment service stock broker firms are suggested to manage the offered services through development of customer expertise during the time.

## 2. Literature review:

Customer loyalty is defined as intention of consumers to remain with an organization [79] and their commitment to depth (e.g. through increase of transaction volume) and variety increase (e.g. through increasing the variety of purchased products) of their relationship with the organization. Generally, loyalty has been defined in some texts as the frequency of repetition of purchase or relative mass of purchase or the very brand and is defined yet [73]. For some reasons we consider a trend of behavioral intentions to rate loyalty especially in services needing high cooperation.

In the present study, service quality is defined in secondary aspect of technical service quality and the functional service quality. Long-term service quality is considered based on the procedures and its results [36,61,46]. The mentioned framework is used to measure service quality and since it showed adequately and economically proper service quality models such as SERVQUAL (credit, accountability conceptually being similar to technical service quality, while trust, sympathy and tangibility, characteristics are similar to functional service quality).

Technical service quality refers to output service quality [68] but functional service quality focuses on the distinctiveness of service provider and customer and the tools through which services are delivered. So that both of them are an important section of customer evaluation from entire suggested services. Desirable perceptions in both aspects, to great prospect, have positive relationship with customer's attitudes toward organization and the possibility of their remaining as a customer. High service quality leading to customer satisfaction and loyalty increase is not an outstanding new claim and there is a good literature providing experiential support of this hypothesis [17,23,25,68,77,78].

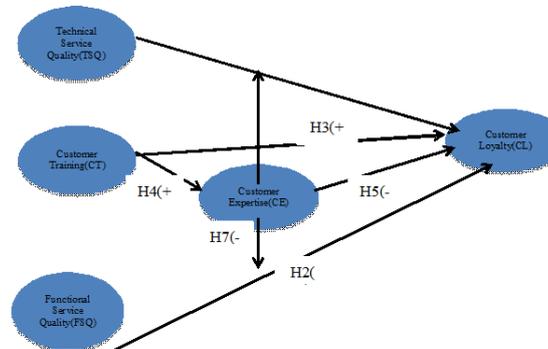
Customer training has been observed for long time as an instrument of making value for customers. It helps them to gain complete potential of the products they buy, to solve every probable problem and come to newer or more complex versions of products in future. However, when other customers don't need help to understand the complexities of a product, they flexibly refer to "other switching firms" for alternative competitive options. In some extremist cases, the customers may leave the market completely to produce the product themselves [31].

In the present study, customer training is defined to extent that service staff (financial consultants) provide the customers with skills and abilities to use the information [22]. Customer training is measured to extent that consultants inform customers and offer financial concepts and positive and negative aspects of investment they recommend to their customers [69]. In other words, first, presenting the skills and abilities to use information needs that customers have suitable information (they are informed) and second, they should have instruments to perceive these information (e.g. the concepts should be explained). Customer training initiatives will increase loyalty for some reasons. First, the efforts to train customers is observed as a valuable appendix for service process [22,50,51]. For example, Sharma and Patterson [69] found that increasing effectiveness of investment consultant's communication is related to customer trust increase to organization and commitment to the relationship. Second, the efforts to train customers, the most likely, is effective in increasing customer efficiency and is related to higher repetitions of customer's buying [78]. Finally, investment in customer training innovations, will strengthen the perceptions of customers from the firms situation as providers of high quality services. While the perceptions of service quality increase in a specified price, customers have more preference to remain with the firms.

The existing studies on buyer's behavior prove that a previous degree of expertise of consumers about a product influences to great prospects on evaluation and selection of information [10,64]. While customers gain expertise, they become more efficient in extracting the presented information from their consultants; Information can be evaluated based on the previous knowledge and experiences [55].

### 3. Research conceptual framework:

In this section the predictions on the effects of customer training innovations on their loyalty and expertise are formed (fig1) adapted from Simon J. Bell and Andreas B. Eisingerich. They included competitive outlooks in service marketing literature showing that customer training can cause both advantages and disadvantages [22]. In the present study, it is tried to measure these approaches by investigating dual effects (advantages and disadvantages) of customer training on customer loyalty through including customer expertise as mediator variable in Iran's active investment service stock broker firms.



**Fig. 1:** Research conceptual model (customer training, service quality and customer loyalty).

Based on the research model seven hypotheses are raised.

- 1- (H1): there is a positive relationship between technical service quality and customer loyalty.
- 2- (H2): there is a positive relationship between functional service quality and customer loyalty.
- 3- (H3): there is a positive relationship between customer training and customer loyalty.
- 4- (H4): there is a positive relationship between customer training and customer expertise.
- 5- (H5): there is a negative relationship between customer expertise and customer loyalty.
- 6- (H6): the positive relationship between customer loyalty and technical service quality will be stronger in the case of high customers expertise
- 7- (H7): the positive relationship between customer loyalty and functional service quality will be weaker in the case of high customer expertise.

### 4. Methodology:

General questions of the questionnaire include gender, age, education level and the time of relationship with stock consulting broker firms. Specialized part of the questionnaire includes 20 questions. Questions 1, 2, 3, and four relate to "technical service quality", 5, 6, 7, and 8 to "functional service quality", 9, 10, 11, and 12 to "customer training", 13 and 14 to "customer expertise", 15, 16, 17, and 18 to "customer loyalty" and questions 19 and 20 relate to "switching costs".

The customers in consulting service broker firms in Tehran Stock Exchange were selected as study sample. Consulting services include both of elements of the main services (e.g. investment consulting, research, investment planning) and different backing products related to mentioned points. This part was considered proper for study and since products are complicated and there is high rate of information imbalance among providers of services and the customers [22], the probable variance in investment specialization and every contingent relationship based on customer training innovations are maximized.

384 customers were selected through simple random sampling among the endless customers population coming to the Stock Exchange Organization broker firms. 400 questionnaires were filled among which finally 384 of them were usable for data analysis.

Reliability and validity are two indices of accuracy and appropriateness of the questionnaires and tests.

First the questionnaire was revised by some of M.A and Ph.D. students and some questions were corrected and rewritten. In the next stage, to test the simplicity and understandability of the questions since questionnaires should be distributed among stock broker firms' customers, some questionnaires were distributed among them and after the final revision and consideration it was distributed among the study samples. Certainly the questionnaire was adapted from Simon J. Bell and Andreas B. Eisingerich [14] which has been previously examined by the type of validity (validation) namely factor analysis. Factor analysis is a validity of construct done through confirmatory factor analysis (CFA). In that study two questions were deleted that didn't cause any defect to the research results. The two questions were "my consulter gives me confidence" from "functional service quality" and "I understand the techniques and strategies of my consulter" from "customer expertise".

Reliability refers to the extent that measurement procedure is merely empty of random error (Venus *et al*, 1999). Cranach's alpha was used to gain the reliability of the present questionnaire which came 0.82 where 0.70 is acceptable level of reliability in this formula.

### 5. Results and findings:

#### - Descriptive statistics:

Regarding to research findings 81% of the participants were men and 19% were women. The highest age level with 38.3% was 21-30 years old and the lowest with 3% was participants older than 60 years followed by 31-40 with 22.6%, 41-50 with 19.7%, 51-60 years old with 11.8% and finally less than 20 years old with 4.6%. Education level included 17.8% under diploma, 35.1% diploma and senior diploma, 42.1% bachelor and 5% M.A and Ph.D. the highest relationship time with 38.3% was related to less than 1 year and the lowest one with 7.8% related to 10-15 years followed by 1-5 years with 25.1%, 5-10 years with 10.5%, 15-20 years with 10.1% and more than 20 years with 8.2%. Table 4 shows the mean and standard deviation of the variables.

#### Correlation analysis:

Pearson correlation test was used for correlational analysis among research variables (table 6). It shows correlation matrix between the variables. As shown, there is positive meaningful relationship between all research variables at 1% error level or 99% confidence.

**Table 6:** Pearson correlation for research variables.

Variables		Technical services quality	Functional services quality	Customer training	Customer expertise	Customer loyalty	Switching costs
Technical service quality	R	1	.262**	.371**	.415**	.428**	.509**
	P		.000	.000	.000	.000	.000
	N	384	384	384	384	384	384
Functional service quality	R	.262**	1	.465**	.352**	.213**	.512**
	P	.000		.000	.000	.000	.000
	N	384	384	384	384	384	384
Customer training	R	.371**	.465**	1	.418**	.380**	.699**
	P	.000	.000		.000	.000	.000
	N	384	384	384	384	384	384
Customer expertise	R	.415**	.352**	.418**	1	.537**	.452**
	P	.000	.000	.000		.000	.000
	N	384	384	384	384	384	384
Customer loyalty	R	.428**	.213**	.380**	.537**	1	.410**
	P	.000	.000	.000	.000		.000
	N	384	384	384	384	384	384
Switching costs	R	.509**	.512**	.699**	.452**	.410**	1
	P	.000	.000	.000	.000	.000	
	N	384	384	384	384	384	384

\*\* . Significant at 0.01

#### Testing research hypotheses:

Adjusted hierarchical regression was used to test the research hypotheses. Before the analysis, all the measures were averaged to form a combination. To do the test of the main effect of customer training on customer expertise and the hypothesis that expertise subtly mediating the relationship between customer training and loyalty, another set of regression was completed based on Baron and Kenny [13]. One-tailed tests were used for testing the hypotheses and two-tailed test for control variables and other variables [66,11].

Results of the first research hypothesis: through single regression analysis, the effect of technical service quality as independent variable on customer loyalty is gained supposing other elements fixed (table 7).

Regarding the normality of error distribution, lack of correlation of errors and verification of the related regression model and since significance test is zero, it can be said that hypothesis 0 is rejected and hypothesis 1 supported with 99% probability.  $R^2$  is 0.259 denoting that 0.259 of the changes of customer loyalty is related to the changes of technical service quality. Beta coefficient is 0.46, supposing the fixity of other variables, if 1 unit of technical service quality increases, 0.46 unit of customer loyalty increases. So, it can be said that (H1): there is a meaningful relationship between technical service quality and customer loyalty.

Results of the second hypothesis: now through single regression analysis, the effect of functional service quality as independent on customer loyalty as dependent variable supposing fixity of other elements is

examined. Regarding the normality of error distribution, lack of correlation of errors and verification of the related regression model and since significance test is zero, it can be said that hypothesis 0 is rejected and hypothesis 1 supported with 99% probability.  $R^2$  is 0.262 denoting that 0.262 of the changes of customer loyalty is related to changes of functional service quality. Beta coefficient is 0.31, supposing the fixity of other variables, if 1 unit of functional service quality increases, 0.31 unit of customer loyalty increases. So, it can be said that (H2): there is a positive relationship between functional service quality and customer loyalty.

**Table 7:** Regression analysis. Technical service quality on customer loyalty.

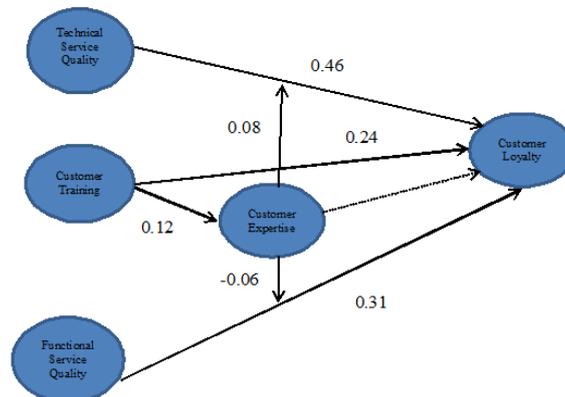
Variables Entered/Removed <sup>b</sup>						
Model	Variables Entered	Variables Removed	Method			
1	<sup>a</sup> technical service quality	.	Enter			
a. All requested variables entered.						
b. Dependent Variable: customer loyalty						
Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.460 <sup>a</sup>	.259	.257	.68435		
a. Predictors: (Constant), technical service quality						
b. Dependent Variable: customer loyalty						
ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62.422	1	62.422	133.284	.000 <sup>a</sup>
	Residual	178.905	382	.468		
	Total	241.327	383			
a. Predictors: (Constant), technical service quality						
b. Dependent Variable: customer loyalty						
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.575	.167		9.423	.000
	Technical service quality	.631	.055	.460	11.545	.000
a. Dependent Variable: customer loyalty						

Table 7 shows summarily results of the regressions of the third to the seventh hypotheses, their rejection or supporting and their path coefficients. Customer loyalty has positive meaningful relationship with technical service quality ( $b=0.46$ ,  $p<0.001$ ), functional service quality ( $b=0.31$ ,  $p<0.001$ ), and customer training ( $b=0.24$ ,  $p<0.001$ ) supporting the first, second and the third hypotheses. However, unlike the expectation, customer expertise doesn't have a negative relationship with customer loyalty ( $b=0.00$ ,  $p>0.05$ ) meaning that the fifth hypothesis is rejected. The regression analysis results for the subtle mediating of customer expertise in the relationship between customer training and loyalty showed that there is a positive relationship between customer expertise and customer training ( $b=0.12$ ,  $p<0.05$ ) supporting the fourth hypothesis. The main effect of customer training on customer loyalty was meaningful; however when customer expertise entered the third equation, the issue didn't decrease. In other words, the condition for subtle mediating was not satisfying. [13]. Finally, a meaningful and positive relationship coefficient between technical service quality and customer expertise ( $b=0.08$ ,  $p<0.05$ ) showed that positive effect of technical service quality on customer loyalty was really stronger when customer expertise was high and supported the sixth hypothesis. Unlikely and in line with research expectations, the relationship between functional service quality and customer expertise was meaningful and negative ( $b=-0.06$ ,  $p<0.05$ ) showing that the positive relationship between functional service quality and customer loyalty will decrease when customer expertise increases. This led to supporting the seventh hypothesis. In table 9, the summary of research hypotheses results can be observed and figure 2 shows the research model and effect rate of the paths.

**Table 9:** Summary of research hypotheses results.

Effect rate	Support/reject	Research hypotheses	Hypothesis number
0.46	Support	There is a positive relationship between technical service quality and customer loyalty	1
0.31	Support	There is a positive relationship between functional service quality and customer loyalty	2
0.24	support	There is a positive relationship between customer training and customer loyalty	3
0.12	Support	There is a positive relationship between customer training and customer expertise	4
0.00	Reject	There is a negative relationship between customer loyalty and customer expertise	5
0.08	Support	the positive relationship between customer loyalty and technical service quality will be	6

		stronger in the case of high customers expertise	
-0.06	Support	The positive relationship between customer loyalty and functional service quality will be weaker in the case of high customer expertise.	7



**Fig. 2:** Research model with effect rate of the paths.

#### Discussion:

Regarding the research results showing positive relationship in both technical service quality and functional service quality with customer loyalty, it is in line with research expectations verifying the previous research findings [17,77]. In forming customer inclinations toward loyalty to financial service organizations, they note to performance of the main product and the process through which product is delivered. Regarding the high involvement identity of these services and considerable risk related to their purchase, it seems logical that technical service quality has a relatively stronger relationship with customer loyalty than functional service quality (0.46 vs. 0.31).

The positive and significant relationship between customer training and customer loyalty (0.24) was meaningful as it was expected. Clear definitions of financial concepts and presentation of necessary information as excessive and complimentary services is understood by customers. Customer training is a comparable relationship with sales concepts [76] where in relation to "hard sale", sale process is more about cooperation structure and collaboration with customers [16]. This process is repeated with customers to great prospect and they "test" their knowledge and assumptions about management of financial affairs with the consultants (when they effectively follow assurance of their decision makings [34]. This process increases the linkage between the customers and broker firms to great prospects.

The positive relationship between customer training and customer investment expertise (0.12) was expected. In peculiar circumstances, financial consultants effectively influence on what customer teaches [34]. As it was mentioned before, financial services are mostly complex and are high regarding experience and validity features. Personnel behavior when making relationship with customer (e.g. financial consultants) and the information and explanations they provide, are very important especially for customers' understanding of the product and reduction of their perceived risks [30].

The result that high expertise didn't have a negative relationship with customer loyalty was unexpected; however there are some probable explanations for this result. The first one is derived from the quantity and quality of competitive options. General high evaluations of customers from service quality, (mean of technical service quality=3.4087, mean of functional service quality =4.1062) show that currently they have a superior service quality comparing with competitors and expert customers in spite of an accurate evaluation of competitors decided to remain with the current investment firms. The second reason which is to some extent compatible with the research, is derived from recent findings that when service performance is high, those customers with higher familiarity show more satisfaction and behavioral inclinations than those with lower levels of familiarity. So, when superior services are delivered, expert customers can evaluate better which is in line with the outlook that customers (through training, experience and collected expertise) can understand the received special service complexities better [71]. The final probability is that the collected expertise by customers is special to some extent for every broker firm. Yet the used cases to rate training and expertise were discussed in general as possible (e.g. to prevent training and special expertise of broker firms measurement), it is highly probable that some part of what customers learn is special for broker firms so that there is a little difference between organizations regarding product, language, consulting style and methods features.

The findings of the present study for moderating effects of customer expertise showed that customers with high expertise extremely rely on technical service quality in forming their inclinations to remain loyal to organizations than functional service quality. In line with our expectations and existing literature [68], those with higher expertise can process more complex information [9]. In other words, expert customers can evaluate

the results related to services more reliably (e.g. accuracy of consulting, performance of the portfolio related to alternative competitive options). On the other side, customers with limited expertise depend more on trust service features (e.g. friendship and being professional with consultants) to decide on their intention to remain with broker firms.

#### *Conclusion:*

In recent years, customer training in financial service industry has received more attention on behalf of regulatory bodies. For example, Financial Services Authority (FSA) in Britain, has determined customer training as the key element in its charter [34]. The results of the present study showed that there is an opportunity for organizations to participate in initiatives and similar plans. Potentially, some managerial results are taken from the present study which are outstanding in two areas. First is that financial services broker firms should include customer training in their relationship marketing philosophy? Second is that they should be aware of changing identity of customer perceptions as far as training during time is effective in customer expertise.

Regarding combining customer training with relationship management initiatives, broker firms may consider the opportunities for equipping financial consultants with needed skills to explain complex financial concepts to customers in a simple and convincing way. However, above all, consultants should have independence or behavioral freedom inside their job to allocate a time to explain the concepts to the customers [14]. In most cases following the admirable general and minor goals by work plans is excessively pressuring and nullifies incompatible reward structures [47].

Broker firms also should pay attention to customer summoning methods to involve them in training process [63]. It is possible that training initiatives will be more successful where consultants have a good understanding of customer knowledge" gaps. "For example, to make relationships with new customers to use it in future interactions, consultants may interview and record the experiences and past investment background of customers which provides customization of information, considerations and consulting regarding to the special needs and capabilities of the customers.

The second important reasoning is that investment firms need to observe the relationships with their customers dynamically. Customers change their observation method and interact with services during the time. In the present study, increase of customer training and consequently expertise leads to increasing concentration of customers on technical aspects of service supply. Training initiatives should be developed based on this case. e.g., Burton [13] showed that the same as expertise of a customer increases, simple presentation of information for deep and accurate educational efforts will be more proper. Also, when customer expertise increases, the type of presented information should change. Expert customers may increasingly appreciate accurate information about their investment portfolio, extra insights on consultant decision making procedure and more opportunities for co-production. Online connection may prepare an ideal space for answering to increasing levels of customer expertise (permission of purposeful technical information presentation). This concept can be expanded to different "row" service packages design leading to more insight and communication in expert customers' services.

A recent editorial, Harrison (2002, p.7) showed that in financial services, "there is a need of gaining a better understanding of the roles of information and consulting in consumer's decision making". While there are significant amount of research on customer expertise and knowledge, there is a relatively less understanding of how to gain such knowledge by customers. The present study gave a meaningful answer to this summoning. Although certainly, more repetitions and changes are needed in the present research model, it is hoped that it leads to extra transparency in customer training issue, its effect on customer expertise and skills and finally a method through which service quality is understood.

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