Customer Perception, Customer Satisfaction, and Customer Loyalty Within Chinese Securities Business

Yingzi Xu PhD a, Robert Goedegebuure PhD a & Beatrice Van der Heijden PhD a b c

a Maastricht School of Management, Endepolsdomein 150, 6229 EP, Maastricht, The Netherlands
b University of the Netherlands, Heerlen, The Netherlands
c University of Twente, Enschede, The Netherlands

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Customer Perception, Customer Satisfaction, and Customer Loyalty Within Chinese Securities Business: Towards a Mediation Model for Predicting Customer Behavior

Yingzi Xu
Maastricht School of Management

Robert Goedegebuure
Maastricht School of Management

Beatrice van der Heijden
Maastricht School of Management

ABSTRACT. This study proposes a mediation model that links customer perceived service value to customer loyalty via customer satisfaction. Psychometrically sound measures were selected and a survey was undertaken among 1,200 customers of a Chinese Securities firm with a response rate of 41%. Results show that customer satisfaction does

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Yingzi Xu, PhD (E-mail: Yingzi@msm.nl), is Assistant Professor of Marketing, and Robert Goedegebuure, PhD (E-mail: goedegebuure@msm.nl), is Associate Professor of International Business, both at Maastricht School of Management, Endepolsdomein 150, 6229 EP Maastricht, The Netherlands.

Beatrice van der Heijden, PhD, is Professor of Organization Behavior, Maastricht School of Management, Endepolsdomein 150, 6229 EP Maastricht, The Netherlands. She is also affiliated with the Open University of the Netherlands, Heerlen, The Netherlands, and the University of Twente, Enschede, The Netherlands.

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play a mediating role upon the relationship between customer perceived service value and customer loyalty. Our study suggests that customer perceived service quality has a significant effect upon customer satisfaction; customer perception of relational benefits has a positive impact upon customer satisfaction, with trust being the most important indicator; customer satisfaction is positively related with loyalty in terms of positive word of mouth, willingness to pay more and to stay with the business. Moreover, the results indicate that the five dimensions as distinguished in SERVQUAL (Parasuraman et al., 1988) are compressed within two dimensions—IT provision and service attitude. Our outcomes suggest that managers should initiate service policies aimed at securing improvement in customer satisfaction. doi:10.1300/J366v05n04_06 [Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <http://www.HaworthPress.com> © 2006 by The Haworth Press, Inc. All rights reserved.]

KEYWORDS. Customer perception of service quality, customer satisfaction and customer loyalty

INTRODUCTION

Competition within China’s financial services industry is affected by three major external forces: (1) the increasing internationalization of all financial products and players; (2) the change in the regulatory environment (which is removing many barriers to open competition); and (3) the accelerating impact and pervasiveness of information technology. These forces are highly related to China’s entry into the World Trade Organization and its impressive economic growth. Competition and technology upgrading have resulted in pressure upon customer service. Consumers are becoming more sophisticated in their requirements and they are increasingly demanding higher standards of service. As competition increases, customers tend to be more mobile and more likely to switch to competitors as more choices are available than before.

For various reasons, it is essential for the financial services business in China to gain more insight in relationship marketing. In the first place, the relative intangibility of service products has emphasized the need to build differential advantages through improved service quality (Perrien & Ricard, 1995). Second, as deregulation has heightened competitiveness in the financial services’ industry, relationship marketing as a means to protect the customer base has come to the fore (Reichheld & Sasser,
1990; Turnbull & Valla, 1990). Third, there are clear customer benefits linked to a relationship marketing approach (Berry, 1995; Czepiel, 1990; Gwinner et al., 1998; Henning-Thurau et al., 2002). By engaging with service suppliers in an effective relationship, customers are more likely to achieve suitable service delivery (Harrison, 2000). And finally, rapid and far-reaching technological changes urge financial services companies to improve their understanding of customers’ needs and buying behavior in order to be able to establish database and management systems aimed at delivering tailored services.

Customer loyalty is claimed to be a profound consequence of relationship marketing (Reichheld, 1993, 1997; Reichheld & Kenny, 1990) and it has replaced market share as the primary focus of marketing practitioners (Gummesson, 1997). Research that integrates the role of customer loyalty within the context of other service marketing variables such as service quality, relational benefits and customer satisfaction is called for. A better understanding of the effects of service quality, relational benefits, and customer satisfaction upon customer loyalty not only facilitates the development of a model of service marketing, but also results in managerial implications on the best use of their available resources.

This study seeks to contribute to the development of a conceptual framework that integrates customer loyalty, service quality, relational benefits, and customer satisfaction. The next section provides a literature review on the core constructs and depicts relationships between the variables within a hypothesized research model. The methodology section describes the psychometrically sound measures that are selected and describes the sampling approach and the data collection procedure. Next, the outcomes of the study will be given followed by a discussion and recommendations for further research. Implications for theory development and management practice are taken into account.

**THEORETICAL BACKGROUND**

**The Importance of Relationship Marketing**

With the increase in competition, developing strong relationships has become a major marketing tool for service providers to differentiate themselves and their products, and to keep customers loyal (Berry, 1995; Day & Wensley, 1983; Evans, 2002; Payne & Frow, 2004). Competition often renders good service quality inadequate for gaining a
competitive advantage (Palmer & Mayer, 1996). In consequence, the focus has shifted from putting the major marketing resources in attracting new customers, to caring for existing customers, and providing them with relational benefits.

Building relationships of mutual value has existed since the start of commerce (Gronroos, 1994, 1996). Berry (1995) described relationship marketing as earning the customers’ favor and loyalty by satisfying their wants and needs. He emphasized that attracting new customers should be viewed as an intermediate step, that is to say, solidifying the relationship, transforming indifferent customers into loyal ones, and treating customers as clients should be considered as marketing as well. The definition by Gronroos (1990) focuses on the mutual objectives of the parties involved that are achieved by means of exchange and fulfillment of promises. It implies that for a relationship to exist, both parties must derive value out of it. A long-term relationship must be built on mutual benefits and trust (Gronroos, 1994). Relationship marketing emphasizes a long-term, interactive relationship between the service provider and the customer, and long-term profit.

Reichheld and Sasser (1990) from their investigation of various service industries demonstrated that loyal customers generate more revenue over more years, and that the cost of maintaining customers is often lower than the promotion cost needed to acquire new customers. Similarly, Gronroos (1991) argued that it is often much less expensive to have a stable customer base where resell and cross-sales occur on a regular basis. As competition increases, it becomes more important for a service company to protect its customer base, since it is harder to win back any customers lost. Therefore, according to Gronroos (1991) the interest in long-term customer relationship is only natural.

Relationship marketing creates value for customers, in allowing the service provider to become aware of the customers’ needs and to deliver services tailored to the target customers (Berry, 1995; Christopher et al., 1991). The benefits to the customer lie in stability and endurance (Han et al., 1993). With regard to financial services in particular, the high involvement, high risk and complexity of the service cause many customers to have a strong and explicit desire for an effective relationship with the service provider (Harrison, 2000). In addition, customers reap social benefits from relationship marketing apart from core services (Czepiel, 1990). In line with this, Jackson (1993) argues that relationship marketing addresses the basic human need of feeling important. The key goals of relationship marketing theory are the identification of the determinants of the outcomes, such as customer loyalty and positive word of
mouth, and an understanding of the causal relations between these drivers and outcomes (Henning-Thurau et al., 2002).

Service Quality

In the services literature, perceived quality, which is the result of a comparison that customers make between their expectations about a service, and their perception of the way the service has been performed (Gronroos, 1984; Kotler, 2000; Lehtinen & Lehtner, 1982; Lewis & Booms, 1983; Parasuraman et al., 1983, 1985, 1994; Zeithaml, 1987), appears to be the main operationalization of service quality. Perceived service quality is therefore viewed as the degree and direction of discrepancy between customers’ perceptions and expectations (Parasuraman et al., 1988). Service quality is of particular importance for financial service providers who characteristically offer products that are homogenous in nature (Stafford et al., 1998).

In operationalizing the service quality construct, Parasuraman et al. (1985, 1988, 1994) have made use of both qualitative and quantitative research following generally accepted psychometric procedures. This resulted in the development of the original 22-item so-called SERVQUAL (service quality) instrument that represents one of the most widely used measurement instruments of service quality. It has provided researchers a means of measuring service quality on the basis of five dimensions (Parasuraman et al., 1988, p. 23):

- **Tangibles**: physical facilities, equipment, and appearance of personnel.
- **Reliability**: ability to perform the promised service dependably and accurately.
- **Responsiveness**: willingness to help customers and provide prompt service.
- **Assurance**: knowledge and courtesy of employees and their ability to inspire trust and confidence.
- **Empathy**: caring, individualized attention that the firm provides its customers.

Relational Benefits

The importance of developing and maintaining enduring relationships with customers of service businesses is generally accepted in marketing literature. The relational benefits approach (Henning-Thurau
et al., 2002) focuses on the benefits that customers receive apart from the core service. It assumes that both parties in a relationship must benefit from it in order to continue in the long run. Building on the early work of Berry (1995), Bendapudi and Berry (1997), Gwinner, Gremler, and Bitner (1998), Henning-Thurau et al. (2002) developed and empirically supported a typology of three relational benefits. According to these researchers’ definitions, relational benefits include social benefits, special treatment, benefits and trust. These three relational benefits exist above and beyond the core service provided:

- **Social benefits** pertain to the emotional part of the relationship and are characterized by personal recognition of customers by employees, the customer’s own familiarity with employees, and the creation of friendships between customers and employees.
- **Special treatment benefits** take the form of relational consumers receiving price breaks, faster service, or individualized additional services.
- **Trust** refers to perceptions of reduced anxiety and comfort in knowing what to expect in the service encounter.

### Customer Satisfaction

Customer satisfaction is defined by Oliver (1997) as a pleasurable level of consumption-related fulfillment. Customer satisfaction is generally conceptualized as an attitude-like judgment following a series of purchases or consumer-product interactions (Yi, 1990). It is understood as the customer’s emotional reaction to the perceived difference between performance appraisal and expectation (Oliver, 1980).

According to the disconfirmation paradigm, expectancy disconfirmation is divided into two processes, the first being the formulation of expectations towards the product or service, the second being the comparison of the experienced performance of the product or service with prior expectations. Disconfirmation may be positive when performance is better than expected or negative when experienced performance is worse than expected (Van Montfort et al., 2000). Customer satisfaction has traditionally been regarded as a fundamental determinant of long-term customer behavior (Oliver, 1980). It is the result of a customer’s perception of the value received in a transaction or relationship (Blanchard & Galloway, 1994; Heskett et al., 1990) and can be interpreted as the customer’s overall evaluation of the performance (Johnson & Fornell 1991).
Customer Loyalty

Oliver (1997) defined loyalty as a deeply held commitment to re-buy or re-patronize a preferred product consistently in the future despite situational influences. Researchers have operationalized customer loyalty in two distinct ways. The first defines loyalty as an attitude. Different feelings create an individual’s overall attachment to a product, service or organization. These feelings define the individual’s purely cognitive degree of loyalty (Hallowell, 1996). The second definition of loyalty is behavioral. In this regard, customer loyalty has been measured as a minimum differential needed for switching (Raju et al., 1990), recommendations (Boulding et al., 1993), repurchase intentions (Anderson & Sullivan, 1993; Cronin & Taylor, 1992), and willingness to pay a price premium (Zeithaml et al., 1996).

Numerous studies have been conducted to identify the benefits that customer loyalty delivers to service organizations. Those benefits include the initial cost of introducing and attracting new customers and consist of (1) positive word of mouth, (2) increases in the number of purchases, and (3) increases in the value of purchases. Moreover, loyal customers can be very helpful for the service provider to improve service quality, as they are willing to communicate with the company in a positive way.

Positive word of mouth reflects the affective dimension of loyalty (Gremler & Brown, 1996). It is defined as informal communications between existing and potential customers regarding evaluations of goods or services (Hennig-Thurau et al., 2002). Because personal communication is viewed as a more reliable source than non-personal information (Zeithaml & Bitner, 1996), word-of-mouth communication is a powerful force in influencing future purchase decisions. Particularly, when the service involves high risk for the customer, it helps companies to attract new ones (Hennig-Thurau et al., 2002).

Empirical Evidence for the Hypothesized Model

Exploratory research conducted by Parasuraman et al. (1985), supports the notion that service quality is an overall evaluation similar to attitude. Their research findings revealed that regardless of the type of service, customers use the same general criteria in arriving at an evaluative judgment about service quality. They also support that customer perception of service quality stems from a comparison of what they feel service firms should offer, with their perceptions of the actual
performance. Correspondingly, the empirical study of Van Montfort et al. (2000), has revealed that satisfaction can be predicted by the service performance perceived by customers.

Social benefits are expected to have a positive impact on customer satisfaction, as the interaction between customers and employees is central to the customer’s quality perception in many services (Reynolds & Beatty, 1999). Price and Arnould’s (1999) study has shown a positive relationship between commercial friendship, as a key element of social benefits, and satisfaction. Gremler and Gwinner’s (2000) research indicates that customer-employee rapport is positively related to satisfaction with the service provider. Analogously, Hennig-Thurau et al. (2002) assume that a positive relationship exists between social benefits and customer satisfaction. However, their research did not show a significantly positive relationship between the two variables.

Special treatment benefits are used widely as an ingredient of relationship marketing programs in order to get positive financial returns. They may increase the cost of switching for consumers (Hennig-Thurau et al., 2002). When an organization provides additional types of special treatment benefits, such as economic saving or customized service, emotional and cognitive switching barriers are increased (Fornell, 1992; Guiltinan, 1989). This may result in increased customer loyalty (Selnes, 1993). Reynolds and Beatty (1999) made a paralleling argument that a service firm’s offer of special treatment benefits may be perceived as part of the service performance itself, and correspondingly such benefits would be expected to positively influence the customer’s satisfaction with the service.

Moorman et al. (1992) define trust as the willingness to rely on an exchange partner in whom one has confidence. Trust creates benefits for the customer because the efficiency inherent in relationships decreases transaction costs, and these benefits in turn foster customer loyalty to the relationship (Morgan & Hunt, 1994). Berry (1995) suggested that trust reduces uncertainty and vulnerability, especially for so-called black-box-type services that are difficult to evaluate due to their intangible, complex, and technical nature. Therefore, he proposed that customers who develop trust in service suppliers, based on their experiences with them, have good reasons to remain in these relationships (Berry, 1995). Bitner (1995) echoed this proposition when she asserted that each service encounter represents an opportunity for the provider to build trust and thus increase customer loyalty.

Gronroos (1990) indicated that trust in the service provider is a particularly important dimension of the relationship from the customer’s
perspective. Shemwell et al. (1994) found trust to be important in building customer relationships as the outcome of their study also suggests that the higher the level of trust, the greater the probability that customers will continue the relationship and the lower the level of perceived risk inherent in the relationship. Hennig-Thurau et al. (2002) claimed that trust has a positive impact on satisfaction, because greater levels of trust in the interaction will result in lower anxiety concerning the transaction and thus greater satisfaction. The results of their study indeed support the assertion that trust has a significant and strong positive impact upon satisfaction.

Overall satisfaction has a strong positive effect on customer loyalty intentions across a wide range of product and service categories (Fornell, 1992; Fornell et al., 1996). Heskett et al. (1994) found that customer loyalty differed greatly depending on the level of satisfaction. Their analysis identified very satisfied and loyal customers, next to very unsatisfied customers who tended to speak out against the service and the company at every opportunity. Similarly, the study of Hallowell (1996) demonstrates that customer satisfaction positively affects customer loyalty.

The work done by Hennig-Thurau et al. (2002) shows that of all variables customer satisfaction has the strongest direct impact upon customer loyalty, and their outcome provide evidence for the significant positive influence of customer satisfaction upon word-of-mouth communication. Likewise, the research done by Ranaweera and Prabhu (2003) confirms that satisfaction has strong positive associations with positive word of mouth.

Summarized, a considerable amount of studies reveals that there are positive relationships between customer perceived service factors with customer loyalty, and that this relationship is mediated by customer satisfaction (see Figure 1).

**RESEARCH MODEL AND HYPOTHESES**

Based upon the previous discussion of the literature, the research model depicted in Figure 2 was developed. Customer perceived service quality is identified with five dimensions: (1) tangibles, (2) reliability, (3) responsiveness, (4) assurance, and (5) empathy (Parasuraman et al., 1988). The customer’s perception of the relational benefits is operationalized as (1) social benefits, (2) special treatment benefits, and (3) trust. Customer perceived service quality is supposed to be positively related with the customer’s perception of the relational benefits,
and both factors are hypothesized to have a positive impact upon customer satisfaction.

Our research model implies that customer satisfaction is a predictor for customer loyalty. Customer loyalty is indicated by (1) positive word of-mouth, and (2) customer retention intention. In summary, in our study, the following five hypotheses have been tested:
$H1$: Customer satisfaction is positively influenced by customer perception of service quality.

$H2$: The customer perception of relational benefits has a positive impact on customer satisfaction.

$H3$: Customer perception of service quality is positively related to customer perception of the relational benefits.

$H4$: Customer satisfaction is positively related to positive word of mouth.

$H5$: Customer satisfaction is positively related to retention intention.

**METHODOLOGY**

**Measures**

The service quality measures were derived from the five dimensions (tangibles, reliability, responsiveness, assurance, and empathy) of SERVQUAL (Parasuraman et al., 1988), that is, a 22-item instrument for assessing customer perceptions of service quality in service organizations. Based on their relevance to securities firms, fourteen items were selected for our study, and one item on providing accurate market information was added (see Appendix for a full list of the service quality items). Perceived service quality was measured by means of these five dimensions, all rated using a five-point rating scale. Customer perception of relational benefits was measured with three dimensions, rated on a five-point scale as well. The three measures, that is, social benefits, special treatment benefits, and trust were adopted from a study by Hennig-Thurau et al. (2002, p. 244). Customer satisfaction was measured as an aggregated psychological attribute, and refers to the level of satisfaction with the service of the company, branch or with the employee, using a five-point scale. Customer loyalty was measured by means of two newly developed scales, one for positive word of mouth, and one for retention intention. Based on previous studies and in-depth interviews with managers of the securities firms, the measures for customer loyalty were created. Positive word of mouth was measured as “the willingness to recommend the company and the branch to others.” For both items, a two-point rating scale has been used. Retention intention was measured by asking whether the customers would be inclined to switch to competitors (two-point rating scale), and their willingness...
to pay more—price tolerance—scored on a four-point rating scale). Please see Appendix for an overview of all items that have been used.

Sample and Procedure

Five companies with branches across China and in business for over five years were willing to participate to the study. Senior managers and branch managers were then interviewed about their view on service quality, customer satisfaction and loyalty, and about their strategies to survive in fierce competition. One branch of a company participated in the pilot study. One hundred customers were selected randomly when visiting the branch, and 78 of them responded to the pilot survey.

The translation-back-translation method has been used in order to make sure that conformity of meaning was established (see Hambleton, 1994). That is, for the already validated scales, the parameters for measurement have been translated from English to Chinese and then back-translated to English by an independent translator. The purpose of this double translation was to allow experts to examine both versions of each questionnaire item to establish conformity of meaning. Where inconsistencies were encountered, the items have been reformulated. The reliability of the scales was tested in the pilot sample of customers. For all scales, Cronbach’s $\alpha$ exceeded the recommended level of 0.70 (Nunnally, 1978).

As, unfortunately, in four companies, the response rates in the main survey were too low due to time and money constraints, only the data from one company were available for testing our hypothesized research model. The data were gathered between November 2002 and May 2003 in this company that was listed among the top ten in Chinese securities industry over the past five years.1

The questionnaires were distributed within each branch of the company. About 1,200 customers from 30 branches were interviewed following a proportionate sampling plan, with a final response of 494 customers (41%). After the data cleaning process, 476 respondents from 26 branches were retained for the analyses for the main study.

Analyses

In order to assess the construct validity of the measures prior to model estimation, two steps have been taken (Anderson & Gerbing, 1988; Byrne, 2001). First, Principal Component Analysis using Varimax Rotation has been performed in order to eliminate cross-loading items
and to optimize scale validity and reliability. Second, the validity of the measures was evaluated by conducting Confirmatory Factor Analysis (CFA; Arbuckle & Wothke, 2003).

After the evaluation of the validity of the measures, the hypothesized relationships are tested simultaneously by using Structural Equation Modeling (SEM). The maximum likelihood method has been used to investigate the covariance matrix of the items. The goodness-of-fit of the model was evaluated using absolute and relative indices. The $\chi^2$ goodness-of-fit statistic and the Root Mean Square Error of Approximation (RMSEA) have been calculated as absolute goodness-of-fit indices. Non-significant $\chi^2$ values indicate that the hypothesized model fits the data, and RMSEA values smaller than or equal to 0.08 are indicative of an acceptable fit (Cudeck & Browne, 1993). As the $\chi^2$ goodness-of-fit statistic tends to increase with sample size, it was decided to use the Comparative Fit Index (CFI) as well. For the CFI, as a rule of thumb, values of 0.90 or higher are considered to indicate a good fit (Hoyle, 1995).

The Expected Cross-Validation Index (ECVI) is central to the next cluster of fit statistics. The ECVI measures the discrepancy between the fitted covariance matrix in the analyzed sample, and the expected covariance matrix that would be obtained in another sample of equivalent size. The model with the smallest ECVI value exhibits the greatest potential for replication. As ECVI coefficients can take on any value, there is no determined appropriate range of values (Byrne, 2001).

Finally, modification indices (MIs) have been studied in order to obtain in-depth information on possible misspecification. MIs reflect the extent to which the hypothesized model is appropriately described (Byrne, 2001). For each fixed parameter specified, the AMOS program for SEM provides an MI, the value of which represents the expected drop in overall $\chi^2$ value if the parameter were to be freely estimated in a subsequent run. All freely estimated parameters automatically have MIs equal to zero.

RESULTS

Descriptive Statistics

For customer perception of the service quality, the final outcome comprised two factors, namely: (1) information technology (IT) provision, and (2) the customer perception of employee service attitude.
Regarding the customer perception of relational benefits, the final outcome comprised three factors, that is: (1) social benefits, (2) special benefits, and (3) trust. The statistics in Table 1 show that Cronbach’s α for each construct exceeds the recommended level of 0.70 (see Nunnally, 1978). The diagonal of the matrix in Table 1 presents all scale reliabilities.

**Confirmatory Factor Analysis**

The CFA assessed the factor structure and Table 2 shows that the model fit is within the recommended range of acceptability (Byrne, 2001). These outcomes imply that the measured statistics have satisfactory validity. Please see Table 2 for the model statistics.

**Testing the Hypothesized Research Model**

Results of the SEM analysis showed that the model fits the data ($\chi^2 (242) = 653.98$, GFI = 0.89, CFI = 0.92, RMSEA = 0.06). The original ECVI is 1.62. In reviewing the parameters in the covariance section of the modification indices (MI), only the parameter representing the covariance between “satisfaction with the company” and “satisfaction with the branch” is of interest (MI = 56.9). As the error correlations between pairs of items are often an indication of redundancy based upon similarity in item content (Byrne, 2001), the specification of correlations between error terms must be supported by a substantive or empirical rationale. The two items elicit responses reflective of the same image set. Customers perceive the degree of satisfaction with a branch as coinciding with the satisfaction with the company in general. It is appropriate to re-estimate the model with the error covariance specified as a free parameter. The outcomes of the test of the re-specified model are depicted in Figure 3.

The re-specification of the model reflects a better fit. In comparison with the first model, the $\chi^2$ has dropped from 654 to 530, the GFI has increased from 0.89 to 0.91, the CFI has increased from 0.92 to 0.95, the RMSEA has dropped from 0.060 to 0.050, and the ECVI has dropped from 1.62 to 1.36. On the basis of the MIs, there is no justification for any further model fitting. All parameter estimates are statistically significant and substantively meaningful. The standardized path coefficients of the model are given in Figure 3.

The results of our empirical study show that the assumed links in the framework are supported. The customer perception of service quality in
<table>
<thead>
<tr>
<th>Variable</th>
<th>M</th>
<th>SD</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<th>5</th>
<th>6</th>
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<td>Customer perception of IT provision</td>
<td>2.98</td>
<td>0.37</td>
<td>−0.09</td>
<td>0.21</td>
<td>0.77*</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Customer perception of employees</td>
<td>3.20</td>
<td>0.40</td>
<td>−0.36</td>
<td>0.53</td>
<td>0.42*</td>
<td>0.88*</td>
<td></td>
<td></td>
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<tr>
<td>Social benefits</td>
<td>2.88</td>
<td>0.38</td>
<td>−0.25</td>
<td>0.50</td>
<td>0.29*</td>
<td>0.20*</td>
<td>0.77</td>
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<tr>
<td>Special benefits</td>
<td>2.26</td>
<td>0.71</td>
<td>0.17</td>
<td>−0.72</td>
<td>0.19*</td>
<td>0.09**</td>
<td>0.89</td>
<td>0.91</td>
<td></td>
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<tr>
<td>Trust</td>
<td>3.08</td>
<td>0.34</td>
<td>−0.23</td>
<td>0.57</td>
<td>0.27*</td>
<td>0.39*</td>
<td>0.22*</td>
<td>0.19*</td>
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<td>Customer satisfaction</td>
<td>3.11</td>
<td>0.33</td>
<td>0.13</td>
<td>−0.11</td>
<td>0.5*</td>
<td>0.61*</td>
<td>0.26*</td>
<td>0.14*</td>
<td>0.49*</td>
<td>0.89</td>
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<td>Positive word of mouth</td>
<td>0.72</td>
<td>0.42</td>
<td>−0.96</td>
<td>−0.88</td>
<td>0.29*</td>
<td>0.20*</td>
<td>0.18*</td>
<td>0.11**</td>
<td>0.29*</td>
<td>0.29*</td>
<td>0.85</td>
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<td>Customer loyalty</td>
<td>0.46</td>
<td>0.46</td>
<td>0.87</td>
<td>0.46</td>
<td>0.16*</td>
<td>0.12**</td>
<td>0.16*</td>
<td>0.16*</td>
<td>0.13*</td>
<td>0.27*</td>
<td>0.27*</td>
<td>0.70</td>
</tr>
</tbody>
</table>

*p < 0.01, **p < 0.05.
terms of the perception of IT provision and the perception of employees, do have a significant positive impact on customer satisfaction (Hypothesis 1). Customer perception of relational benefits positively influences customer satisfaction (Hypothesis 2). Customer satisfaction has a positive impact upon both customer positive word-of-mouth, and retention intention (Hypotheses 4 and 5). Finally, customer perception of service quality is positively associated with the customer perception of relationship value (Hypothesis 3).

TABLE 2. Model Fit of CFA Models

<table>
<thead>
<tr>
<th></th>
<th>Chi-Square</th>
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<th>CFI</th>
<th>RMSEA</th>
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<td>13.463</td>
<td>8</td>
<td>0.991</td>
<td>0.995</td>
<td>0.038</td>
</tr>
<tr>
<td>Customer perception of relational benefits</td>
<td>87.884</td>
<td>32</td>
<td>0.965</td>
<td>0.976</td>
<td>0.061</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>15.492</td>
<td>1</td>
<td>0.984</td>
<td>0.985</td>
<td>0.075</td>
</tr>
</tbody>
</table>

FIGURE 3. Maximum-Likelihood Estimates for the Model

Note: All factor loadings and path coefficients are significant at the p < .001 level.
DISCUSSION AND IMPLICATIONS

The findings of this research indicate that the questionnaires identified to measure customer perceived service quality and relational benefits, customer satisfaction, and customer loyalty exhibit acceptable psychometric properties in terms of both reliability and validity. Moreover, the results of our study confirm the hypothesized relationships in the research model. The relationship between perceived service value and customer loyalty is found to be determined by customer satisfaction.

Given that service quality perceived by customers has a direct, significant effect on customer satisfaction, it is a useful exercise for Chinese securities firms to examine their customers’ perceptions of service quality. Based on the factor analysis, the results indicate that the five dimensions of the original service quality as defined by Parasuraman et al. (1988) are compressed in two dimensions, which can be summarized as IT provision and employee service attitude, such as willingness to respond, and being courteous and friendly.

Employee service attitude appears to play the most important role in the customer perception of service quality. This does not come as a surprise, since it is the employee who actually delivers. The initial interaction between customers and employees, rightfully referred to as “the moment of truth” (Norman, 1984), has a great influence on the evaluation of service quality. The encounter is critical in achieving a reputation for superior service quality and keeping customers loyal (Lau, 2000). The branch managers should divert their attention to the attitude of employees in delivering services to customers, since it strongly influences the customer perception of service quality as a whole. And they should consider using it as a means to enhancing customer satisfaction and, ultimately, customer loyalty.

Social benefits, special treatment benefits, and trust, as customer perceived relational benefits, are also shown to have a positive impact on customer satisfaction. Trust is considered to be the most important assessment criterion by customers, followed by social benefits, and special treatment benefits. This corresponds to the findings of Hennig-Thurau et al. (2002). The results suggest that managers of Chinese securities firms should consider trust as instrumental in building bonds with customers. Interviews with customers suggest that they perceive the company as a trustworthy service provider in case the employees give market information openly and regularly, and when the company has structured transaction processes which are transparent rather than a black box.
The findings confirm that in order to improve customer satisfaction, managers should balance their resources aimed at increasing service quality and improving relational benefits. Perceptions related to service quality have been found to be a more important predictor for customer satisfaction than relational benefits as evaluated by customers. At a branch level, managers need to decide on the relative emphasis to put in technology and facilities versus employee factors. Employees appear to have a larger impact compared with technology and facilities. It is recommended to invest in the improvement of the service attitude by training employees to become aware of the importance of being responsive and friendly to the customers. Rewarding employees with a good attitude toward customers appears to be an effective instrument for improvement (Xu, 2004; Xu & Van der Heijden, 2005).

Interviews with customers and branch managers suggest that the customers’ willingness to pay a higher price and their switching behavior are highly related to employee service performance. Most of the customers in our study claim that despite competitors offering lower price, they prefer to stay with the branch because of the employee (customer account manager) whom they trust; or they would like to switch to another company/branch following the departure of a particular account manager. Above all, employee factors such as service attitude during the service delivery and building trust with customers are the keys to customer satisfaction and loyalty. Referring the theater metaphor (Grove & Fisk, 2001), employees serving customers can be thought of as actors and customers as the audience that experiences the service performance. From the customers’ point of view, employees are the service (Zeithaml & Bitner 2003). Therefore, it makes sense for service organizations to work on improving the quality of their employees as well as service quality itself. A parallel study of our research (Xu & Goedegebuure, 2005) confirms that improving employees’ job satisfaction by providing a good working environment and employees’ well-being will eventually increase customer satisfaction.

Securities firms in China categorize private customers according to their resources. In the marketplace, there is a growing group of institutional customers who are professional investors for pension funds and investment institutions. The type of customer has been recorded in our survey and our data analysis shows that there is neither a significant difference in satisfaction between them, nor a significant difference in the perception of the relational benefits. However, the interviews with branch managers suggest that some small customers are more profitable in terms of repurchasing due to their number of transactions, while
some large clients are costly because of the cost involved in maintaining the relationship. Therefore, the company should be more focused on identifying loyal customers based on their contribution to the profit instead of their resources.

Although a positive relationship appears to exist between customer satisfaction and customer loyalty, in reality this relationship is not linear. Satisfying customers is not enough to ensure loyalty because even satisfied customers may defect at a high rate. In one study, 65-85% of the customers that defected indicated that they were satisfied (Reichheld, 1993). On the other hand, customer loyalty is not simply a result of satisfaction. Satisfied customers may look elsewhere because they can get an even better service somewhere else and dissatisfied customers may choose not to defect, because they do not expect to receive a better service elsewhere (Banwari & Walfried, 1998). The interviews that have been conducted with the customers of this securities firm, indicated that a customer might be very satisfied with the service provided by the company or a branch, but may switch to another company/branch because of a shifting of residence. Similarly, an unsatisfied customer perhaps chooses to stay with the company/branch, just because it is not convenient to switch to another one that is too far away, or because there is no time to search for a better one, or simply because he/she does not want to give up the loyalty program. Summarized, customer loyalty is constrained by convenience, searching costs and switching costs.

Customer satisfaction is an important indicator for customer loyalty, yet satisfaction is not an end in itself. Improving customer satisfaction is only useful if it results in economic success, which suggests management should find out what key factors of satisfaction improvement can be translated to loyalty behaviors which will link up to profit generation.

In a strict sense the results of this study only pertain to the respondents from one Chinese securities firm, therefore, data from a larger variety of businesses should be collected in order to determine the amount of generalizability. Future research needs to include comparable data from the financial service industry at large, such as banks and insurance companies, and from other services companies from different industries in China. Moreover, for cross-validation purposes, additional exploration of the relationships in the model needs to be extended to other markets.

It is also possible to invest in developing a richer model that incorporates other constructs beyond those used in this study and to consider their interactive effects. As satisfaction is only one of the recognized antecedents to customer loyalty, it would be useful to examine other key
variables that are likely to influence loyalty, such as switching costs, value of convenience, and so on.

The results of this study are based on cross-sectional data. Longitudinal research is needed to conclude more confidently on the validity of the model, although this design also has limitations, such as the problem of selecting appropriate time-intervals (Kessler & Greenberg, 1981; Frese & Zapf, 1988).

Byrne (2001) argues that it is less risky to use SEM with maximum likelihood (ML) estimation procedure when a variable has four or more categories. Recent findings support that Chi-square is influenced by a two-category response format. This effect is less pronounced as the number of categories increases. Therefore, it would have been more appropriate to measure positive word-of-mouth and customer retention intention on five-point scales.

NOTES


REFERENCES


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APPENDIX

Customer Survey Questionnaires

You are

A: Institutional client/Individual client
B: Big client
M: Medium client
S: Small client

DIRECTIONS: This survey deals with your opinion about the securities company services. Please show the extent to which you think the firm offering financial services possesses the features described by each statement. If you strongly agree that the firm possesses a feature, circle 5. If you strongly disagree that the firm possesses a feature, circle 1. If your feelings are not strong, circle one of the numbers in the middle. There is no right or wrong answer—all we are interested in is a number that describes best your expectations about the firm offering the services to you.

How satisfied are you with . . . in each of the following statements:
1 = Very dissatisfied; 2 = Dissatisfied; 3 = Neutral; 4 = Satisfied; 5 = Very satisfied

1. Maintaining a clean and pleasant ambience of the branch office facilities
2. Providing up-to-date information facilities
3. Providing easy-to-use transaction systems
4. The staff maintain a professional appearance
5. Providing accurate market information
6. The Staff have adequate knowledge of investment products and services
7. The staff are able to do things right in a reasonable time
8. The staff are able to follow through on their promises
9. The staff are able to properly handle any problems that arise
10. The staff are able to provide prompt service
11. The staff are willing to respond to your requests anytime
12. The staff are consistently courteous
13. The staff keep your transactions confidential
14. The staff are friendly
15. The staff give you undivided attention
APPENDIX (continued)

How do you feel with . . . in each of the following statements:
1 = Not at all; 2 = Hardly; 3 = To some extent; 4 = Yes; 5 = Very much

1. I am recognized by certain employees
2. I enjoy certain social aspects of the relationship
3. I have developed a friendship with the contacted employee(s)
4. I am familiar with the employee(s) that perform(s) the service
5. I get faster service than most customers
6. I get better prices than most customers
7. I am usually placed higher on the priority list when there is a line
8. They do services for me that they do not do for most customers
9. I get discounts or special deals that most customers do not get
10. I know what to expect when I go in
11. This branch’s employees are perfectly honest and truthful
12. This branch’s employees can be trusted
13. This branch’s employees have integrity

Overall rating of satisfaction:
1 = Very poor; 2 = Poor; 3 = Neutral; 4 = Good; 5 = Very good

1. Overall rating of the company
2. Overall rating of the branch
3. Overall rating of the attitude of employees
4. Overall rating of handling any problems that arise

Do you recommend this company to others? (0 = No, 1 = Yes)
Do you recommend this branch to others? (0 = No, 1 = Yes)
I will not take my business to a competitor that offers better prices
(0 = I will; 1 = I will not)

I will continue to do business with the company/branch if its prices increase somewhat but no new service product is available. If you choose yes, please select the tolerance of increase: 1%, 5% or 10%.
(0 = No, 1 = 1%, 2 = 5%, 3 = 10%)