

## *Full Length Research Paper*

# **Effective customer service: A tool for client retention among stock broking firms in Nigeria**

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**The paper examines the various customer retention measurement metrics and constructs, using concepts of customer service, customer satisfaction, behavioral intention and employee satisfaction. Pearson product moment correlation coefficient, t and F statistics were used to test the hypotheses formulated based on information received from 164 respondents (clients) patronizing four Stock broking firms in Cross River State, Nigeria. Simple percentages were also used to analyze the socioeconomic characteristics of respondents tabulated in a bivariate frequency table. All the tested hypotheses in the research are supported. The paper identifies good customer service as imperative to client retention and organizational profitability.**

**Key words:** Customer service, customer retention, customer satisfaction, organizational profitability.

## **INTRODUCTION**

No business organization operates in isolation but in a macro-environment, characterized by competition and trends that either sharpens opportunities or pose threats to the success of the entity. A typical example is the global economic crisis which has brought along with it, series of new challenges, such as the prolonged bearish period in the stock market, coupled with increasing rate of unemployment. This calls for periodic review and restructuring of corporate administrative policies, client service delivery system and the evolution of innovations aimed at adding value to clients. To achieve this feat, efficient customer service becomes indispensable, especially as it facilitates client retention (Reichheld, 1996).

Retaining clients implies keeping them active with you through a good customer service that is built on "an understanding of their needs, preferences and want" (Oyenihi and Abiodun, 2008). It is not only a cost effective and profitable strategy (Reichheld, 1996), but is imperative in fostering customer satisfaction, considering the fact that clients are becoming increasingly aware of their rights and privileges, expecting more values for their money, better quality services and products, even at a higher cost.

Customer service is a series of activities designed to enhance the level of customer satisfaction, that is, the feeling that a product or service has met the customer expectation (Turban, 2002). It plays a vital role in the organization's ability to generate income and revenue (Selden, 1998), and varies by product, firm and the client perception. Restructuring becomes inevitable in an organization when client service delivery system fails to contribute to the realization of the organizational goal, when clientele base expands, competition heightens, branch network increases.

Undoubtedly, stock broking firms in Cross River State are among the various firms that have witnessed stiff competition in recent times, partly due to increased awareness in stock market investment and homogeneity nature of services rendered. This, coupled with the global economic crisis that has induced the global crash of stock prices, had affected their performances. Wading through the aforementioned constraints calls for the evolution of a proactive, dedicated and dynamic customer service system that is based on the need, interest and preference of the clients, using the best standards and tools to attain set corporate goals. Facing this global downturn of their core business constituency, calls for re-strategization, not only to deal with existing stiff competition, but to add more value to existing services. This therefore, requires the building of strong business relationship with client, which in turn demands an understanding of their

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capabilities, needs, as well as their objections and fears.

Accordingly, this study is aimed at examining various clients' intention as it pertains to their satisfaction, retention and patronage of Stock broking firms. Emphasis would also be laid on their perception of the existing customer service. Accomplishing the above objectives implies addressing some pertinent questions of interest which includes; does good customer service promote client retention? Does employee satisfaction influence customer satisfaction? Is there any relationship between customer satisfaction and organizational profitability? Is there any relationship between customer satisfaction and favorable customer's behavioral intention? Is customer satisfaction influenced by client perceived value of service rendered?

### **CUSTOMER SATISFACTION AND CLIENT RETENTION**

Customer retention refers to customer's stated continuation of a business relationship with the firm (Timothy et al., 2007). Numerous metrics have been employed by researchers to measure customer retention. For instance, customer recommended intention (Reichheld, 1996), share of the wallet (Jones and Earl, 1995), customer repurchase intention, (Chandon et al., 2005). Of all these metrics, customer satisfaction is by far the most commonly used (Reichheld, 1996). But only few researchers have so far investigated the satisfaction construct among stock broking firms in Nigeria, which forms the basis for this study.

Customer satisfaction is a measure of how products and services meet, or surpass customer expectation. In a competitive market with homogenous services like stock broking firms, it involves the various strategies adopted to keep clients satisfied. Research has shown a relationship between customer satisfaction and client retention (Oyenihi and Abiodun, 2008; Jones and Earl, 1995; Timothy et al., 2007). Only few of such studies have actually focused on the nature and extent of such relationship (Bloemer and Poiesz, 1989). Few available literature are grouped by Klee et al. (1997) into three categories; those that use monetary data on individual group, those that use the customer repurchase intention and those that use the customer repurchase data on individual level.

Satisfied customers tend to be loyal (Timothy et al., 2007), take less of firm's time, are less sensitive to prices (Gan et al., 2006), and pay less attention to competitor's advertising (Stun and Thiry, 1991). It has been proven in the literature that satisfaction influenced repurchased intention and satisfied customers are likely to be retained (Anderson and Sullivan, 1993). But Reichheld (1996) argues that satisfaction may not always be a good measure of customer retention. In his view, most unsatisfied customers may choose to continue their patronage for fear of securing alternative better services elsewhere.

This might be the case in most instances; as such, fears may arise as a result of lack of awareness on the existence of better services elsewhere, especially when repurchased intention is used as a construct for measuring satisfaction. It can also arise if the firm in question is a monopoly. For instance, Power Holding Company of Nigeria Limited, rendering electricity services in Nigeria will always have its customer retained, not because of customer satisfaction but because of monopoly.

This assertion was complemented by Kordick (1988), who in his study of customer repeat purchase behavior of cars, found out that 15% of unsatisfied customers who defected, returned to the same dealer despite their dissatisfaction.

In a similar industry, while Gierl (1993) found out that between 40 to 60% of interviewed customers, who changed their brand, said they were satisfied, studies by Reichheld (1993) reveal that 65 to 85% of defecting customers were satisfied. However, these assertions may not be true for stock broking firms, considering the homogeneity nature of services rendered and the degree of competitiveness in the market. With the global downturn in the capital market characterized by dwindling stock prices, clients would prefer patronizing firms with which they derived maximum utility, subject to their budget constraint. Consequent upon the above assertions, it is proposed that:

H<sub>1</sub>: There is a positive relationship between customer service and client retention.

### **Relationship between customer satisfaction, employee satisfaction, and organizational profitability**

Numerous studies support the idea that, there exists a link between employee satisfaction, customer satisfaction, productivity and financial result (Koy, 2003; Reichheld and Kenny, 1990). Studies such as Reichheld (2000) "the loyalty effect", James et al. (1997) "the service profit chain" and Katherine (2001) produced the first set of hard data qualifying these links. Both studies earmarked a direct and quantifiable link between customer service variable (satisfaction and loyalty), employee variable (satisfaction, loyalty, commitment, capability and internal service quality) and financial result.

Also, empirical result (Anderson et al., 1998), point towards a significant relationship between customer satisfaction and economic performance in general. Happy employees treat external customers well; such customers are bound to continue their patronage, thereby growing the relationship, leading to continuous loyalty. This invariably reduces the defection rate, and the cost associated with acquiring new customers, which is always more than maintaining existing ones (Zeithaml et al., 1996). From the foregoing, the following hypotheses

can be proposed:

H<sub>2</sub>: The higher the employee's level of satisfaction, the higher the customer satisfaction.

H<sub>3</sub>: There is a direct relationship between customer satisfaction and organizational profitability.

## **CUSTOMER SATISFACTION AND CUSTOMER BEHAVIOURAL INTENTION**

Research has earmarked the existence of a hierarchical construct between customer satisfaction, perception, behavioral intentions and customer behavior (Timothy et al., 2007). For instance, while most researchers focused on repurchased intention (Chamdon et al., 2005; Reichheld, 1996; Oliver and Swan, 1989), others are based on customer recommend intentions (Singh, 1998). While Reichheld (2003), measured both repurchased intention and recommend intention, other researchers such as Jamieson and Bass (1989), examined the nature of relationship between repurchase intention and repurchased behavior.

According to Reichheld (2003), among all the various measures of intention, recommend intention constitutes the best measure of satisfaction, in linking customer's loyalty behavior. In his view, it is possible for firms to manage customer intentions compared to the perception of their experiences. This assertion was complemented by Umorok (2009) in his survey on client's source in Stock Broking firms in Nigeria, who opined that 55% of clients patronizing the firm, thread on referrals. According to him, satisfied clients would not only continue their patronage, but would keep on referring prospects to the firm. Such continuous patronage lowers the retention elasticity of the firm (Oyenihi and Abiodun, 1997), grows the relationship, and instills more confidence and lead to more loyalty and referrals. Judging from the above assertion, it can be proposed that:

H<sub>4</sub>: There is a positive relationship between higher level of customer satisfaction and favorable customer behavioral intention.

## **CUSTOMER LEVEL OF SATISFACTION AND PERCEIVED VALUE OF SERVICE**

Good customer service has been found to enhance customer perceived value (Zeithaml, 1988). Perceived value implies the customer's overall assessment of the utility of a product based on the perception of "what is received" and "what is given". The gap between what is expected and what is given, called service quality, is a strong predictor of customer satisfaction (Rust et al., 1995), and form the rationale behind the quest by managers to explicitly measure the extent to which their

products or services meet customer's expectation. According to Bolton and Drew (1991), perceived values are influenced by differences in cost (monetary and non monetary), customer tastes and characteristics. Other factors such as relationship quality (Crosby et al., 1990), existence of product warranty, customer's disposable income (share of the wallet), and interaction efficiency of the relationship staff also influences customer perceived value. An interrelationship between the customer, the above factors and the environment impact severely on the customer's perceived value, hence, his satisfaction level. Against this backdrop, it is proposed that:

H<sub>5</sub>: the higher the level of perceived Service value, the higher the level of customer satisfaction.

## **METHODOLOGY**

Clients patronizing four stock broking firms in Cross River State, Nigeria were selected for the study (Maven Asset Management Limited, Cashcraft Asset Management Limited, Davandy Finance and Abyn Investment). To capture only targeted respondents, 50 questionnaires were assigned to each firm for clients to fill and return. Of the 200 questionnaire administered, only 164 were filled and returned. In order to arrive at the various research construct, series of questions were raised. For instance, customer satisfaction was captured with questions like; are you satisfied with the services of your broker? Do your brokers respond promptly to your complaint? Favorable behavioral intention was captured by questions like; when last did you refer prospect to your broker? Are you likely to refer prospects to your broker in the next three months? Are you likely to continue your patronage of your broker in the next three months? The satisfaction- profitability variable was captured by questions like; do you think your continuous patronage of your broking firm would boost their productivity (income)? All questions were measured on a two point scale (Yes or No).

Also, a data of respondent's socio-economic characteristics with respect to age, sex, educational level, was tabulated in a bivariate frequency table and analyzed with the aid of simple percentages. Also, Pearson product moment correlation coefficients, alongside t- and F- test statistics were used to analyze the data gotten.

## **FINDINGS AND DISCUSSION**

Of the total number of sampled respondents, 60.36% were male while 39.64% female. Also, 63.5% were graduate, 30.5% attended secondary school while 6.0% did not attend school at all. 69.51% of respondents patronized more than one broking firm, while, 30.49% patronized only one broking firm.

### **Relationship between service and client retention (H<sub>1</sub>)**

This construct was measured based on client continuous patronage. The result shows a high positive correlation (0.807) between the variables ( $R=0.807$ ,  $n=164$ ,  $p<0.01$ ), implying that client retention is directly related to good customer service.

With a higher level of customer service, clients would continue their patronage, thereby fostering more loyalty and retention. This result corroborate the findings of Oyenih and Abiodun (2008).

### **Relationship between employee satisfaction and customer satisfaction (H<sub>2</sub>)**

The result of the Pearson product moment correlation coefficient which was used to test the above relationship shows a fair, but positive correlation (0.582) between variables ( $R=0.582$ ,  $n=164$ ,  $P < 0.01$ ). This implies that higher level of employee satisfaction signals higher customer satisfaction. Happy employees treat external customer well and such customers are bound to continue their patronage. This grows the relationship and leads to more loyalty. This finding is consistent with the findings of the corporate leadership council (1998).

### **Influence of customer satisfaction on organizational profitability (H<sub>3</sub>)**

The result (t value 12.952,  $F=386.86$  and  $R^2 = 0.636$ ) shows a significant influence of customer satisfaction on organizational profitability. Satisfied customers would continue their patronage and referrals. Such continuous patronage and referrals would promote more loyalty behavior. This would increase the firm's trade volume and impact on the business turnover, hence, the overall profit of the firm. This is so because, loyal customers from cost perspective tend to stay longer with the preferred firm, buy more and generate favorable word of mouth effect that may further benefit the firm (Reichheld and Kenny, 1990).

### **Relationship between higher level of customer satisfaction and favorable behavioral intention of client (H<sub>4</sub>)**

Favorable behavioral intention was measured based on both client's recommended and re-patronizing intention. Both results ( $t = 8.342$ ,  $F=163.52$ ,  $P=0.00$ ,  $R^2=0.579$  and  $t=7.655$ ,  $F=201.65$ ,  $P=0.00$ ,  $R^2=0.7662$ ) shows a positive relationship between the variable. This implies that satisfied clients would in addition to their continuous patronage; give both solicited and unsolicited referrals to firms (Reichheld, 1996). This is necessary because continuous patronage and referrals would grow the relation and help the client develop thick skin to competitor's advertisement.

### **Influence of customer satisfaction on client's perceived value (H<sub>5</sub>)**

The result of the influence of customer satisfaction on

client's perceived value ( $t=12.96$ ,  $F= 392.70$  at  $p= 0.00$ ,  $R^2 = 0.632$ ) confirms the existence of a direct but significant relationship between the perceived value of services rendered by the firm and the level of his satisfaction. That is, if the level of customer's perceived service value is high; their satisfaction level will be high.

## **MANAGERIAL IMPLICATIONS**

Series of findings conferring managerial implications has been raised by the research. Good customer service has been identified as sine qua non to customer satisfaction and retention. Managers should realize that happy employees treat customer well, and that, satisfied customers would in addition to their continuous patronage, refer more prospects to the firm. This grows the relationship, promotes more loyalty and attains corporate organizational goals such as increased profitability.

Also, managers should realize that wading through the global economic crisis, characterized by dwindling stock prices, coupled with undiversified nature of services offered by broking firms justifies making good customer service a focal point of organizational research and investment. It therefore behooves on Managers to pay close attention to their client service delivery system with view of identifying her lapses and taking remedial action before the situation gets out of hand.

## **Conclusion**

The study has successfully linked customer service to customer satisfaction, client retention and organizational profitability. Employee satisfaction has been found to be related to customer satisfaction. All tested hypotheses in the research are supported. Considering the competitive and homogenous nature of services offered by these firms, good customer service has been identified as imperative. Hence, effort should be directed towards proper management of existing clients, while still prospecting for new ones.

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