Measuring Perceived Service Quality of Financial Advisors: An Empirical Study

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Financial service sector has been playing a major role in the development of Indian economy. The approach of financial services providers towards investors/ customers is an area of concern. The present study strives to develop an instrument to measure customer perceived service quality of financial advisors. "Financial Advisors means financial services providers, who sell financial services like insurance, mutual fund, provident fund, post office deposits, shares, etc. It includes insurance agents, brokers, mutual fund agents, post office agents etc." A financial advisor is responsible for assessing market conditions, compiling and analyzing socioeconomic data and advising clients on the best investment opportunity. Dimensions of Service Quality developed from the analysis would help the financial advisors and financial services provider companies to efficiently allocate attention and resources among these dimensions on the differential basis, consistent with the customer priorities.

Keywords: Financial Advisors, Service Quality, Service Quality Dimensions, Exploratory Factor Analysis

INTRODUCTION

There are profound information asymmetries between customers and financial services companies in financial markets. There are many financial services (like insurance, mutual fund, share, post office deposits, provided fund, portfolio management services etc) provided by financial institutions. A number of intermediaries have evolved to mediate between customers and financial services companies. In particular these intermediaries like exclusive insurance agents, brokers, mutual fund agents, post office agents etc, help to ease coordination and to further market transactions. In general, these intermediaries are called financial advisors/ investment advisors.

Definition of Financial Advisor:

A financial advisor is a professional who renders financial services to clients. According to the U.S. Financial Industry Regulatory Authority (FINRA), terms such as *financial advisor* and *financial planner* are general terms or job titles used by investment professionals and do not denote any specific designations. FINRA describes the main groups of investment professionals who may use the term *financial advisor* to be: brokers, investment advisers, accountants, lawyers, insurance agents and financial planners.

A financial advisor is responsible for assessing market conditions, compiling and analyzing socioeconomic data and advising clients on the best investment opportunity.

Financial Advisors take an important position as match-makers between the supply and demand sides on financial markets. They provide distribution and marketing services for financial services companies. On the other hand, they supply informational and advisory services for customers. Financial advisor assists customers in their investment needs. They provide low cost information to customers about their risk profiles, investment needs and suitable financial products, thus reducing complexity for customers.

Responsibilities and Duties of a Financial Advisor

A financial advisor is responsible for assessing market conditions, compiling and analyzing socioeconomic data and advising clients on the best investment opportunity. He is expected to be comfortable with tax laws and insurance and suggest suitable investment alternatives. Working with detailed financial records and charts are all a part of the game. The advisor is also expected to forge relationships with clients by focusing on need-based sales of investment products. The advisor is required to have the knowledge of legal and regulatory requirements and the guidelines laid down by Financial Industry Regulatory Authority (FINRA) and Securities and Exchange Commission (SEC). Suggesting investments such as mutual funds, stocks and bonds; suggesting contributions to Individual Retirement Accounts (IRAs), retirement planning, real estate investment advice and many other services, come under the purview of financial (advisor) responsibilities.

A financial advisor cannot ignore the client's ability and the willingness to assume risks. The ability and the willingness to undertake risks coupled with the appropriate investment decision-making process will influence the return on investment. This is because risk and reward are directly proportional. Clients, who have a great deal of money and a long term investment horizon, may be better-off investing in more risky assets. People with a short term investment horizon need to have enough liquidity to meet their financial obligations. Hence, in such cases the advisor should suggest investments that have a short maturity. Despite having the capacity for wealth generation, a person may choose not to invest in what he/she feels is a risky proposition. In this situation, the financial advisor should explain to the reluctant investor the concept of risk and reward, clarify the need for liquidity and make sure that time horizon of the investor matches the need for liquidity. A good financial advisor will ensure that the return from investment coincides with the aforementioned time horizons when the need for liquidity is predominant.

Financial advisors essentially have the job of creating and maintaining their own client base. Client relationships have to be forged by suggesting superior financial management and wealth creation strategies. Meeting with clients on a regular basis, preparing and delivering presentations and seminars to clients are also important since they may enable the advisor to communicate the benefits of certain investments and the prudence of avoiding a few others.

However, while financial advisors contribute to enhancing transparency in financial markets, the market for financial advisors is itself characterized by information lags. Consumers act under incomplete and asymmetric information about the quality of the information and advisory services provided by financial advisors. These services are itself experience and credence goods.

A consumer cannot assess the service quality provided by competing financial advisor in advance, but only after information and advice have been "consumed". Consequently, consumers have only very restricted information about potential conflicts of interest and potential bias in the information and advice given by financial advisors. Those financial advisors indeed use these asymmetries to provide misleading and incomplete information to the detriments of consumers has been experienced in the UK in the 1990s on a wide scale (Davis 2004). In 1997, the British government started to pay billions of 4 British pounds to compensate millions of employees who had opted out of occupational pension schemes because of bad advice given by financial intermediaries.

LITERATURE REVIEW

Quality is an elusive and difficult to define objectively. According to Gummesson (1992), regarding in service there is a humanistic quality approach, at the one extreme stressing customers, personnel, leadership and culture, whereas at the other end lies a technical approach concerning operations management, statistics and methods of measurement. Gummerson divided quality into services, tangibles and software, but he stresses the importance of a total service offering. Lehtinen and Lehtinen (1991) discussed about physical quality, interactive quality and corporate quality, and, on the other hand, about process and output quality.

Lehtinen and Lehtinen (1991) divided quality into input and output. The output consists of total service offering in terms of quality, and the input includes both tangibles and intangibles elements. The output in the form of quality is what the customer in fact pays for, which is to a large extent intangible and may be difficult to quantify (Adam et al., 1995).

Service quality is not the slippery, mystical, or amorphous concept it is often thought to be. Customers will give an institution high mark for its service when it meets or exceeds their service desires. The five

dimensions of service performance (Tangibles, Reliability, Responsiveness, Assurance and Empathy) give direction to the service quality journey. Although these dimensions will be differently important to various

market segments, on an overall basis, they all are important. As a group, they frame the essence of the service quality mandate to be excellent in service, seek to be excellent in tangibles, reliability, responsiveness, assurance and empathy (Berry et al., 1989).

Service quality is generally defined as customer perceived quality which stresses the individual's assessment of the value of the total service offering (Gummesson, 1992). Practically, Gronroos (1998) described perceived service quality as the difference between expected service quality and experienced service quality. This has a link to the gap model (Parasuraman et al., 1985) and other service quality models (e.g. Bitner 1990). On the other hand, Berry et al (1985) divided service quality into two types: regular services, and handling of exceptions or problems to ensure that appropriate procedures are taken to deal with inevitable failures.

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As regards to service quality, the individual's experience of a service forms the basis of an assessment of its quality. It is great to listen to customers and study their reactions. When purchasing services, customers' attention is often limited to a small number of tangible inputs (Zeithaml, 1984). Physical environment include buildings, offices and interior design affects customer beliefs, attitudes and satisfaction Zeithaml and Bitner, 2000), and provides an opportunity to tell the 'right' story about a given service (Berry et al., 1989). Matters such as how contact personnel dresses, articulates, writes, designs and presents proposals are likewise not without meaning (Levitt, 1981). Tangibilising the intangibles is important, because customers do not usually know what they are getting until they do not get it (Levitt, 1981).

As tangible input, the service personnel represent the service, the organization and the marketers in the customers' eyes (Zeithmal and Bitner, 1996). The quality management of personnel includes such things as motivating, managing information, training, career planning and recruiting and retaining of right people (Normann, 1991); Zeithaml and Britner, 1996). It is true that service business is personnel intensive, meaning that quality supplied to the customer is essentially a result of the way personnel perform (Normann, 1991). Schneider (1990) shown that both employees and customers will experience more positive outcomes when the organization operates with a customer service orientation and management supports it. This may be linked to the external service value within the service-profit chain by Heskett et al. (1994), which described employee satisfaction as the underlying factor in the formation of customer perceived quality. Yung et al. (2004) explored service quality dimensions to measure online banking service**,** Naseem et al. (August- 2011) described factors to improve hotel service quality in Pakistan & Kee-Luen Wong et al. (2012) described model of service quality measurement of business academics.

Table 1: Select service quality dimensions

Authors (Year)	**Parasuraman, Zeithaml and Berry (1988**	**Lehtinen and Lehtinen (1991)**	**Mehta and Lobo (2002)**	**Yung, Jun and Peterson (2004)**	**Siddiqui & Sharma (2010)**
Application areas	Telephone co., brokerage, insurance co., banks and repair and maintenance	Lunch restaurants, Disco, Pub type Restaurants	Life Insurance	Online banking	Life Insurance
Dimensions	Reliability	Physical Quality	Assurance	Reliability	Assurance
	Responsiveness	Corporate Quality	Personalized financial Planning	Responsiveness	Personalized financial Planning
	Assurance	Interactive Quality	Similarity with Agents	Competence	Tangibles
	Empathy	Process Quality	Tangibles	Ease of use	Competence
	Tangibles	Output Quality	Competence	Security	Corporate Image
			Corporate Image	Product Portfolio	Technology

OBJECTIVES OF THE STUDY

There is actually no generic scale for measurement of service quality. There is no universal set of dimensions and items that determine the service quality across a section of service industries in different cultures, so service quality measurement must be adapted to fit the context.

Many service quality studies are based on the service quality measurement scale proposed by Parasuraman *et al.* (1988), (The five dimensions of service quality: Tangibles, Reliability, Responsiveness, Assurance and Empathy). Some previous studies in this area focused only on life insurance services like: Mehta et al. (2002) developed service quality dimensions to measure service quality in life insurance industry (refer Table 1), Siddiqui & Sharma (2010) used service quality measurement scale (Table-1) to measure customer perceived service quality for life Insurance, S. Ahmad & Jajaee, (2010) , studied perceived service quality in Australian car insurance industry , Eckardt & Döppner, (2008), measured the quality of insurance intermediary services in Germany, but researcher did not find any adequate research done to measure service quality of financial advisors or investment advisors.

Thus, the objective of this paper is to develop service quality dimensions to measure the service quality of financial advisors that can help the financial advisors and financial services provider companies to efficiently allocate attention and resources among these dimensions on the differential basis, consistent with the customer priorities.

RESEARCH METHODOLOGY

Sample & Data Collection

For this research work, data was collected from Ahmedabad city of Gujarat state, (India*)* through convenience sampling method during the period 15th November - 10th January, 2013. For collecting data, the questionnaires were circulated among customers of financial product/services in Ahmedabad and requested them to fill out these survey questionnaires that are designed for research purpose. Sample size for the study is 100 (Respondents, who have financial advisor).

Variables Measurements

In the Questionnaire, customers rated 25 statements (variables) related to service quality of financial advisor on a 7-point scale (1= strongly disagree, 2= disagree, 3 = somewhat disagree, 4= neutral, 5= somewhat agree, 6= agree, 7= strongly agree). In order to prepare 25 statements for the questionnaire, an interview of 10 respondents of target audience was conducted to understand probable variables and several previous studies (highlighted in Table-1) have been used.

DATA ANALYSIS

The data was extracted from questionnaires and then fed into SPSS 20.0 version for analysis. The correlation tables were formulated to find relationship of service quality factors. Descriptive statistics was used to present the demographic information of respondents. Table 2 shows the demographic profile of the Respondents for the Survey.

Table 2: Demographics of the Respondents for the Survey

Variables	Categories	Count	Percentage
Gender	Male	65	65
	Female	35	35
Age	20-29	36	36
	30-39	18	18
	40-49	17	17
	< 50	29	29
Education Level	Undergraduate	8	8
	Graduate	24	24
	Post Graduate	68	68
Occupation	Employed	79	79
	Self employed	17	17
	Retired	4	4
Monthly Income	< 20,000	9	9
	20,001 – 30,000	41	41
	31,000 - 40,000	17	17
	41,000-50,000	6	6
	> 50,000	27	27

Reliability Analysis

In order to check the reliability of the data, whether random error causing inconsistency and in turn lower reliability is at a manageable level or not, by running reliability test. Values of coefficient alpha (Cronbach's alpha) have been obtained for all five factors. The reliability tests that were run, the value of coefficient alpha obtained for all five factors was higher than 0.7 (factor-1: Responsiveness - 0.873, factor -2: Assurance - 0.716, factor-3: Security- 0.867, factor-4: Competence – 0.768, factor-5: Corporate Image – 0.707) (Table-5.2) which shows that data has satisfactory internal consistency reliability.

Exploratory Factor Analysis

Table 3: Five Service Quality Dimensions

Service Quality Dimensions (along with variables)	Factor Loading	Commu -nalities	Cron-bach's Alpha
Responsiveness			
R-1: My current financial advisor provides me annual financial reviews.	0.883	0.822	0.873
R-2: My Current Financial Advisor never too busy to respond my requests.	0.834	0.822	
R-3: My Current Financial Advisor makes changes in my investment plan as per changes in market conditions.	0.820	0.696	
Assurance			
A-1: My Current Financial Advisor displays good sales service.	0.849	0.724	0.716
A-2: My Current Financial Advisor provides me reasonably -priced service.	0.720	0.595	
A-3: My current financial advisors provides financial services with the features I want.	0.607	0.610	
A-4: My current financial advisor behaves professionally .	0.571	0.605	
A-5: My Current Financial Advisor is confident.	0.532	0.649	
Security S-1 : My current financial advisor maintains security/confidentiality of my financial transactions.	0.888	0.795	0.867
S-2 : My current financial advisor keeps all the records of my investment plan accurately	0.855	0.859	

S-3 : My current financial advisor is credible and trustworthy.	0.755	0.814	
Competence			0.768
C-1 : My current financial advisor has wide range of financial Products/Services.	0.790	0.684	
C-2 : My current financial advisor has good product knowledge.	0.671	0.672	
C-3 : My current financial advisor always gives me accurate and objective financial advises.	0.628	0.557	
C-4 : My current financial advisor properly explain me all the charges associated with product/services before investment.	0.548	0.750	
Corporate Image			0.707
CI-1 : My Current financial advisor is from well-established organization.	0.728	0.754	
CI-2 : My Current financial advisor is from highly reputable financial organization.	0.709	0.559	

In order to explore the underlying dimensions of customers perceived service quality of financial advisors, exploratory factor analysis was performed. The factor analysis results are shown in Table 3, Table 4, and 5 [Table 4, and 5 are shown below]. The results from Table 4 shows that value of KMO statistic is higher than 0.6 (0.640) and Bartlett's test of Sphericity is significant (sig= .000), which reveals that data is appropriate for factor analysis.

Table 4: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.640
Bartlett's Test of Sphericity	Approx. Chi-Square	897.580
	Df	171
	Sig.	0.000

The total variance shown in this Table 5, accounted for by all of the five components explains 71.991 per cent of the variability in the original 17 variables.

The Rotated Component Matrix reveals five factors: Factor-1: Responsiveness, Factor-2: Assurance, Factor-3: Security, Factor-4: Competence, Factor-5: Corporate Image (which represent the five broad perceptual dimensions of service quality) derived from 17 variables (which represent the service quality

of financial advisors). The variables of each factor (with factor loading & communalities) have been highlighted in Table 3.

Table 5: Total Variance Explained[a]

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.727	27.808	27.808	4.727	27.808	27.808	3.073	18.079	18.079
2	2.649	15.582	43.390	2.649	15.582	43.390	2.651	15.593	33.672
3	1.946	11.449	54.839	1.946	11.449	54.839	2.503	14.722	48.394
4	1.502	8.836	63.675	1.502	8.836	63.675	2.434	14.316	62.710
5	1.414	8.316	71.991	1.414	8.316	71.991	1.578	9.282	71.991
6	.891	5.240	77.231						
7	.766	4.507	81.739						
8	.699	4.114	85.853						
9	.540	3.178	89.031						
10	.430	2.528	91.558						
11	.365	2.149	93.708						
12	.306	1.798	95.506						
13	.246	1.445	96.951						
14	.183	1.077	98.028						
15	.164	.964	98.992						
16	.103	.607	99.599						
17	.068	.401	100.000						

Extraraction Method: Principal Component Analysis.

a. Only cases for which Do you have Financial Advisor? = YES are used in the analysis phase.

- Responsiveness is related to the variables, ‘annual financial review’, ‘response to requests’, ‘changes in investment plan as per market conditions’.

- Assurance is related to the variables, ‘sales services’, ‘reasonably priced sales service’, ‘required features in financial services’, ‘professional behavior’ and ‘confidence’.

- Security is related to the variables, 'security/confidentiality of financial transactions', 'accuracy in record keeping', 'credit & trustworthiness'.

- Competence is related to the variables, 'product knowledge', 'product range', 'accurate & objective financial advises' and 'explanation of charges before investment'.

- Corporate Image is related to two variables, 'reputable organization' and 'well-established organization'.

Service quality of financial advisor needs to be measured using five dimensions: responsiveness, assurance, security, competence, corporate image.

MANAGERIAL IMPLICATION

The service quality instrument so developed can be used by the financial advisors & financial service provider institutions for periodic monitoring of service quality as perceived by the customers. The study also provides directions to financial advisors & financial service provider institutions as to which particular dimensions require attention in terms of their importance.

Further, the study helps financial advisors & financial service provider institutions to identify quality gaps between performances of service quality provided by them & expectations of customers in the financial service sector and thereby help them in devising strategies, so as to plug these.

CONCLUSION

The research resulted in the development of a reliable instrument for assessing customer perceived service quality of financial advisors. Here, service quality of financial advisor needs to be measured using five dimensions: responsiveness, assurance, security, competence, corporate image. This would help the financial advisors and financial services institutions to efficiently allocate resources, by focusing on important dimensions. In the competitive financial services sector, these findings can be

transformed into effective strategies and actions for achieving competitive advantage through customer satisfaction and retention.

Although this study focuses on financial services industry in India, however the results and recommendations of this paper can be used for service quality improvements in financial services industries of other countries as well. This can be performed by incorporating necessary changes in service quality aspects in accordance with socio-economic environment of that nation.

LIMITATION OF THE STUDY & DIRECTIONS FOR FURTHER RESEARCH

Small sample size & selection of respondents only from Ahmedabad may limit the generalization of the findings. The study can be extended to other parts of India with more sample size to measure the performance of financial advisors.

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