

Journal of Management Sciences**Risk Tolerance as a Moderator on the Relationship between Customer Equity and Behavioral Loyalty of Securities Investors****Affiliation:**

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Risk Tolerance as a Moderator on the Relationship between Customer Equity and Behavioral Loyalty of Securities Investors

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Abstract: This research seeks to draw attention to risk tolerance and customer equity on behavioral loyalty among securities investors. The main purpose of the present study is to examine the influence of risk tolerance as a regulatory variable on the relationship between customer equity and behavioral loyalty of investors in the Stocks Exchange of Thailand (SET). The sample group is 1,208 investors at high and low levels of risk tolerance in all four regions: the north, south, east and northeast parts of Thailand. The study was conducted in two main stages. First, the model of structural equation of the relationship between customer equity and behavioral loyalty was established. Results show that customer equity has a direct and positive influence on behavioral loyalty at a statistically significant level of 0.001, with an influence equals to 0.817 and 66.8% of behavioral loyalty can be explained. Second, the analyses of variance of the correlation measurement model according to risk tolerance levels were conducted. Results show that there is a variation of the axis intersection values in the regression equation of the relationship model of the factors with different risk tolerance levels. The behavioral loyalty of the high risk group is at 0.959; while that of the low risk group is 0.641, both at a statistical significant level of 0.001.

Keywords: Risk Tolerance, Mediator, Customer Equity, Behavioral Loyalty.

Introduction

This study involves the three important variables in securities investment, including customer loyalty, customer equity and risk-tolerance levels. Customer loyalty is considered the profound dedication of customers to sponsor or repurchase the products or services. Loyalty is developed from trust and satisfaction with the brand or service provider to establish a positive attitude in using the service repeatedly and have a tendency to buy more and more in the future. Since the pursuit of new customers has a high cost, business organizations make an effort to build loyalty among the existing customers in order to create competitive advantages (Chen, 2013). Past research has also shown that customer equity consisting of value equity, brand equity and relationship equity affects behavioral loyalty, which includes word of mouth, retention, advocate and partner. Research in finance has

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also found that satisfaction of customers who come to use the service helps build relationships with customers and influences loyalty, and this will lead to repeated purchases. This is a tendency that will improve financial performance; and it will also help build long-term relationships, develop credibility with customers and a better understanding of consumer behavior, as well as increase the trust of shareholders. Moreover, the quality of the relationship allows the organization to apply it to suit its own business (Ou, Verhoef, & Wiesel, 2017).

Additionally, investment risk, as well as risk tolerance and risk analysis have been widely studied and discussed in the behavioral finance literature. Investment risk refers to the uncertainty received from the refund or returns as expected. Several studies revealed that risks in the securities business are inevitable and severely affect stock investment. A study in stock exchange investments of new economic markets imposed that strategic measures should be developed to diversify investment risks in order to achieve investment objectives and benefits and risk analyses are needed to be well focused on to prevent any impact directly affecting the stock's price and to eliminate risks for a sound investment on the stock exchange markets in the future. Previous research; however, has not discussed risk tolerance levels in the context of the securities business regarding how the risk tolerance levels of investors affect the customers' behavioral loyalty to the securities firms. So this research intended to investigate the influence of risk tolerance level of security investors on their customer equity and behavioral loyalty to the securities firms.

Literature Review

This section provides a broad background of the three variables involved in this study including customer equity, behavioral loyalty and investor risk-tolerance levels.

Customer Equity Concept

In accordance with the changes in modern times the business has tried to keep customers with the company in the long term by implementing strategies to create value for customers through 3 driving forces of value assets, brand assets and relationship assets. Mittal (2001) have defined customer value as the lifetime value at the discount rate of the company's potential, and the current customers are considered as the company's long-term property values. Customer equity can be measured by the value of the relationship of the company with their clients or the total sum of the long-term value that the company will receive from the customer including future customer supports. This customer equity arises from the difference between the total customer value and total customer cost through 3 driving forces which are value equity, brand equity and relationship equity, to be described as follows.

Value Equity

Value equity refers to customer's rational assessment regarding the utility of the brand-based on their tangible perceptions and benefits compared to money paid. It is also known as customer perceived value (CPV) (Mittal, 2001; Yik-Chee, Meredith, & Marchant, 2010) and it is accepted that individual perceptions are different (Abu ELSamen, 2015). In this research, the 3 aspects of quality, price and convenience are studied.

Quality is the perception of customers towards the products or services. The positive perception, not only creates commitment, but also affects loyalty and brings about word of mouth (Markovic, Iglesias, Singh, & Sierra, 2018); and consequently, results in satisfaction and returning to the service (Hossain & Dwivedi, 2015). Quality measures used in this research include satisfaction, knowledge of service providers and service (Kumar & Kanchan, 2017; Mittal, 2001).

Price is an important strategy that directly affects the income of the business, and it is a consideration of product value in the eyes of buyers (Sigurdsson, Foxall, & Saevarsson, 2010). Price indicators used in this research are fees, buying point accumulation and value (Mittal, 2001).

Convenience including physical evidences, such as decoration of facilities being tangible in the eyes of customers, (Mathur, Das, & Paul, 2016) is a strategy that creates value in the eyes of customers. Measures used in this research are convenience, mobility, adequate service and education (Mittal, 2001).

Brand Equity

Brand equity means an emotional assessment of a client about the brand's identity or consideration through a perceptual or abstract perspective. Brand equity can give many advantages to service businesses, creating higher levels of customer loyalty and enabling businesses when facing a crisis. This research is based on 3 components which are (1) brand awareness (2) brand attitude and (3) ethical awareness. Brand awareness is important in indicating the product identity. It is able to generate revenue and stability for the company and can create satisfaction for customers, whether the product is suitable or worth buying (Ilicic & Webster, 2015). The measures of brand awareness in this research include straightforward recognition, familiarity, and good reputation.

Attitude is the feeling of customers about the quality of the brand, which directly affects the recognition of values leading to better pricing strategies over competitors (Vera, 2015). Attitude measures in this research are meeting the needs, complete and adequate product and outstanding and reliable image.

Ethics refers to social responsibility of the organization. This can build trust of consumers or investors to the company (Oliver, Pérez-Gladish, & Méndez-Rodríguez, 2015). Ethics is an important administrative strategy to help control the risk management of the organization for sustainable development (Adelstein & Clegg, 2016). The ethics measures in this research are acceptability, confidence (in using the service) and professional expertise.

Relationship Equity

Relationship equity refers to the perception of the customers who have a close relationship with the brand. Good relationships with the brand make customers stay with the company and therefore have regular purchases. The organization can keep their existing customers by focusing on all activities that get their customers involved in order to retain its customers (Roy, 2015). The present research is based on 3 components of trust, satisfaction and commitment, which are described as follows.

Trust is the willingness of people to rely on the other party in various situations with a sense of security and reliability, even if there is a risk (Erkmen, Hancer, & Leong, 2017). Further, it helps reduce business risk (Padin, Ferro, & Svensson, 2017). Trustworthy is the strongest and most effective relationship keeping customers to continue to use the service of the company. Trust indicators in this research are being confidence, obtaining professional service and being confident in the company (Berry, 2017).

Satisfaction is the feeling or attitude of a person in a positive way, like being comfortable with the environment in different ways. Satisfaction can be caused by positive experiences from using the service and being aware of the value of using that service and therefore creating a competitive advantage over other brand competitors (Ali, Jin, Wu, & Melewar, 2017; Hannan, Suharjo, Kirbrandoko, & Nurmalinga, 2017). Measures of satisfaction in this research are getting the service beyond expectation, having immediate resolution upon request and prompt service.

Commitment is a feeling or attitude, including the expression of the customer toward the brand or service more than a normal level of loyalty. This feeling may be due to the strong attachment and therefore encourages people to be willing to dedicate themselves to create benefits (Valentine & Godkin, 2017). Commitment tends to bring about trust and therefore the customers tend to buy more products. Commitment measures in this research are impression, feeling of participation and good business service contract compliance.

Behavioral Loyalty

Behavioral loyalty refers to a positive and high level of customer relationship with the company which becomes so significant that they ignore other competitors and keep buying or using the service of the company consistently through expressive behaviors. The present research includes 4 components of behavioral loyalty: word of mouth, retention, advocate and partners, as being described as follows.

Word of mouth is resulting from positive attitude and trust the customers have in the product or the company. It brings about such a good behavior as sharing experience in a positive way about the products with friends and family or fixing bad news about the product. This helps reduce customer loss rates and allows the organization sustainability in the business (Celuch & Robinson, 2016). In this research, word of mouth is used to measure the means of referring people to the service, saying good things about business and protecting the image of the business.

Retention is a behavior of loyal customers resulting from the recognition of and sat-

isfaction in the product and service quality. It also brings about willingness to pay more (Dölarslan, 2014) and repeated purchases. Retention indicators used in this research include re-use of the service, larger quantity purchases, and constant and long-termed trading.

Advocate refers to supporting customers who are always willing to make repeated purchases (Chahal & Dutta, 2015; Tournois, 2015). With these advocate customers the company can predict its future revenue; being convinced that customers will continue to provide sustainable supports. The measures of advocate in this research are having fair service, having a good experience and regular participation in customer events of the business.

Partners refers to customers who behave like they are the business partners, those who are always involving in activities that encourage them to continue to support the product lines of the affiliated businesses (Chahal & Dutta, 2015) and those who have great confidence in the company. The partner measures in this research are decision to use the service as the first choice, long-termed use of the service and supporting the business affiliate products.

Risk Tolerance

In the behavioral finance literature, risk or investment risk refers to the uncertainty received from the refund or returns as expected. There are two basic types of risks; systematic and market risks. Systematic risks are those affecting all securities in the market and cannot be reduced by diversifications, such as interest rates. Market risks are the specific risks which are generated from inside factors of each company; these risks include the specific risk in particular different types of industries. In the stock market, the investors are inevitably, facing with both systematic and market risks. Research in stock exchange investments of new economic markets called BRIICKS, such as those in Brazil, Russia, India, Indonesia, China, South Korea and South Africa, found that strategic measures should be developed to diversify investment risks in order to achieve objectives and benefits. At the same time, several studies revealed that risks in the securities business are inevitable and severely affect stock investment. Risk analysis is; therefore, needed to be well focused on. It is essential to prevent any impact directly affecting the stock's price and for suitability of individual investment. In other words, risk analysis is an essential way to create a strategy to eliminate risks for a sound investment on the stock exchange markets in the future. Previous research; however, has not discussed risk tolerance levels in the context of the securities business regarding how the risk tolerance levels of investors affect the customers' behavioral loyalty to the securities firms. In Thailand context, the Stock Exchange of Thailand (SET) together with the Stock Exchange Commission (SEC) and various financial sectors has placed the utmost importance on the risk tolerance levels of the investors. Before investing, all securities companies are required to follow the SET official rules by requesting their clients to do a suitability test and reviewing the results of all clients' investment assessments so that they can properly provide appropriate investment advice at each investor's risk tolerance priority (SET, SEC). At present, the majority of investors in SET are general investors (retail investors) with varying degrees

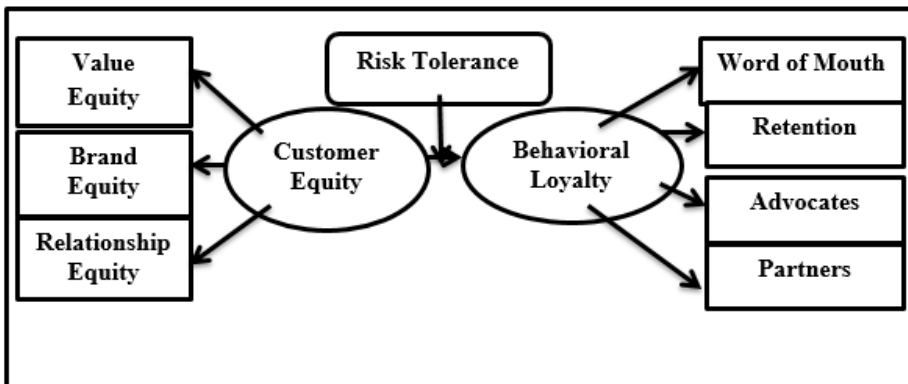
of risk tolerance (SEC, SET). The researcher, working for over 20 years as an investment advisor in a securities firm, is accordingly, interested in studying how the different levels of investor risk tolerance intervene with their customer equity and behavioral loyalty to the security firms. This present research was consequently derived to investigate the role of risk tolerance of these retail investors; in particular, to test whether and to what degree the influence of customer equity on their behavioral loyalty is mediated by the investors' risk tolerance levels.

In this research, general investors (retail investors) are studied. General investors refer to retail investors with limited or not as much capital as other groups of investors and it is necessary for these retail investors to follow certain conditions and direction of the stock market. However, an advantage of retail investors is independency; they are able to trade according to their individual aptitude or interests; there are no rules for regulating the amount invested. There is only a regulation of SET and SEC that require all securities companies to have all investors to do a suitability test before investing to weigh the degree or level of an individual's risk tolerance in order to recommend suitable investment. According to the research sample recruited for the present study the number of retail investors with high-risk tolerance level is 76.2%, while the low-risk group is 23.8%, in this way they are divided into two groups of high and low risk tolerance investors (SET, SEC).

The research procedure has been done in two stages. First, the model of causal relationship between customer equity and behavioral loyalty is established. The customer equity components included in the study are (1) value equity (2) brand equity and (3) relationship equity; while 4 components of behavioral loyalty of (1) word of mouth (2) retention (3) advocate and (4) partners are included. Next, different levels of investor risk tolerance (High and Low) are investigated as the intervention factor in the aforementioned relationship model. This study therefore prescribes the following assumption.

Hypothesis: The relationship between customer equity and behavioral loyalty is not changed according to risk tolerance levels.

Figure 1
Theoretical Model of the study



Research Methodology

This research was conducted using a conceptual framework to explain the influence of the levels of risk tolerances (high and low) as a moderating variable on the relationship between customer equity and behavioral loyalty. The research population is the general investors who have invested in the Stock Exchange of Thailand. Data collection instrument is a questionnaire designed and developed by the researchers. It contains 36 question items divided into three sections. Section 1 contains 16 questions items of customer equity, section 2 contains 11 items of customer behaviors loyalty, and section 3 contains 9 items of their research sample personal information. The questionnaires were reviewed by 3 scholars in the related areas and were tried out and tested for validity and reliability ($\alpha = 0.97$). The questionnaires were then distributed through electronic mails to 1,600 investors. 1208 questionnaires were returned, representing 75.5%. The statistics of SEM Analysis was performed to examine the relationship between the research variables.

Results

In this section the research results are presented in 3 sections of 1) basic personal information of the research sample, 2) tests of the measurement model, and 3) tests of the structural model.

Basic personal information

Most of the sample investors are female (670 people; 54.7%), age 31-40 years, hold a bachelor's degree (642 people; 52.5%), business owners (357 people, 29.2%), followed by private company employees (349 people; 28.5%). The majority lives in the Southern region (346 people, 28.3%), and the Eastern region (344 people: 28.1%). Concerning the samples' financial risk tolerance levels, 921 people (76.2%) can accept high risk and 287 people (23.8%) can accept low risk due to the results of their suitability test (SET, SEC).

Multiple group analysis

In this research, 2 groups of investors with different risk tolerance levels, low-risk tolerance group (LOW) and high-risk tolerance group (HIGH), are analyzed to measure the correlation of causal factor of customer equity on behavioral loyalty of the investors with the testing procedures as follows: (1) test of the measurement model of each group independently to see if they have the same pattern; (2) test of the variation of the measurement model; (3) test of the variation of the weight parameters of the external and internal observed variables, and (4) test of the cutting point of the axis in the regression equation. Details are shown in Table 2 as follows.

Table 1
Test of the measurement model

Hypothesis Model	χ^2	df	p-value	CFI	TLI	SRMR	RMSEA
Configural invariance (Model1: Baseline model)	210.638	85	0.000	0.976	0.969	0.031	0.062
Metric invariance (Model 2)	213.674	88	0.000	0.976	0.97	0.034	0.061
Scalar invariance (Model3)	240.228	96	0.000	0.973	0.969	0.048	0.062
	$\Delta\chi^2_{2-1} = 3.036$			$\Delta df_{2-1} = 3$		$\chi^2_{0.05,3} = 7.81$	
	$\Delta\chi^2_{3-2} = 29.228$			$\Delta df_{3-2} = 8$		$\chi^2_{0.05,8} = 15.507$	

Test of the measurement model

When considering the analysis in Step 1, testing the measurement model of each group independently to see the pattern of measurement, results show that both models are in consistent with the empirical data. The HIGH group has Chi-square values = 105.549, $p = 0.008$, $df = 40$, $CFI = 0.975$, $TLI = 0.966$, $RMSEA = 0.063$, $SRMR = 0.025$; while the Low group has Chi-square values = 100.103, $p = 0.000$, $df = 40$, $CFI = 0.977$, $TLI = 0.979$, $RMSEA = 0.065$, $SRMR = 0.024$. From the above data, it can be seen that both groups have corresponding statistical values; therefore, concluding that both models have the same measurement pattern. Step 2 (Model 1) is the test of variation in the measurement model. It was found that the model was consistent with the empirical data with Chi-square values = 210.638, $p = 0.000$, $df = 85$, $CFI = 0.976$, $TLI = 0.969$, $RMSEA = 0.062$, $SRMR = 0.031$. From the above data, it is accepted that there is no variation in the model by different risk tolerance levels. Step 3 (Model 2) is the test of the variability of weight values parameters of the observed variables with two different test groups, both with equal parameters matrix. The test results show the Chi-square values = 213.674, $p = 0.000$, $df = 88$, $CFI = 0.976$, $TLI = 0.970$, $RMSEA = 0.061$, $SRMR = 0.034$. From the above data, the chi-squared difference degrees of freedom ($\Delta\chi^2$) between the result of Step 3 (Model 2) and that of Step 2 (Model 1) is equal to 3.036 and the difference of degrees of freedom (Δdf) is equal to 3 which is not statistically significant at the .05 level. It is therefore agreed that there was no variation in the correlation models of different risk tolerance levels in weight values parameters of observed variables. Step 4 (Model 3) tests the hypothesis about the intercept values of each observed variable by specifying that the matrix parameters are equal in both groups. The test results show the Chi-square values = 240.228, $p = 0.000$, $df = 96$, $CFI = 0.973$, $TLI = 0.969$, $RMSEA = 0.062$, $SRMR = 0.048$. From the above data, the Chi-square differences degrees of freedom ($\Delta\chi^2$) between the test result of Step 4 (Model 3) and that of Step 3 (Model 2) is 29.228, and the difference degrees of freedom (Δdf) is equal to 8 which is statistically significant at the .05 level. It is therefore agreed that there is a variation in the correlation models of different risk tolerance levels of the axis intersection values in the regression equation.

The analysis results showed that the Chi-square differences degrees of freedom ($\Delta\chi^2$) in all variables are higher than the critical value: $\chi^2_{20,05,3} = 7.81$ showing that there is a variation of the intersection axis value in the regression equation of the measurement model. That is the component weight of investors with high and low risk tolerance levels are not equal.

The researchers further investigated into which weight values of the variable components cause the variation between groups. Since all variables of both groups were found having almost similar weights, the researchers have therefore tested the variability of weight values of each variable by determining independent parameters and parameters, one by one, and then considered the degrees of freedom ($\Delta\chi^2$) value. The variables found with a statistically significant level are determined as those that contain the weight value causing variation. Therefore; the researchers tested the weight values individually to see which weight elements are causing the variation between groups.

Table 2
Test results of weight values by variables

Hypothesis Model	χ^2	df	p-value	CFI	TLI	SRMR	RMSEA	χ^2 compared with independent model
1.Cus by VE	238.97	95	0.000	0.973	0.968	0.044	0.063	$\Delta\chi^2 = 25.296$
2.Cus by BE	239.933	95	0.000	0.972	0.968	0.046	0.063	$\Delta\chi^2 = 26.259$
3.Cus by RE	239.98	95	0.000	0.977	0.968	0.047	0.063	$\Delta\chi^2 = 26.306$
4.Tam by PU	240.179	95	0.000	0.972	0.96	0.047	0.063	$\Delta\chi^2 = 26.505$
5.Tam by PE	239.441	95	0.000	0.973	0.968	0.046	0.063	$\Delta\chi^2 = 25.767$
6.Tam by PC	239.911	95	0.000	0.973	0.968	0.048	0.063	$\Delta\chi^2 = 26.237$
7.Tam by SC	236.628	95	0.000	0.973	0.969	0.041	0.062	$\Delta\chi^2 = 22.954$
8.Loy by WOM	240.101	95	0.000	0.972	0.968	0.047	0.063	$\Delta\chi^2 = 26.427$
9.Loy by RET	240.135	95	0.000	0.972	0.968	0.047	0.063	$\Delta\chi^2 = 26.461$
10.Loy by PN	239.942	95	0.000	0.972	0.968	0.048	0.063	$\Delta\chi^2 = 26.268$
11.Loyby ADV	238.846	95	0.000	0.973	0.968	0.044	0.063	$\Delta\chi^2 = 25.172$

Tests of the structural equation model

Table 3 Results of comparison of Chi-square values of the structural model. Tests of the structural equation model are the tests for the variability of the path coefficient. The test procedures are as follows: (1) multiple group analysis by allowing the parameters of both groups to be independent of each other; (2) multiple groups by giving equal parameters of both groups; (3) compare Chi square differences ($\Delta\chi^2$) to test the variability of the path coefficient. The result shows that the path coefficient of the structural model according to the risk tolerance level is not equal. The chi-square difference ($\Delta\chi^2$) between the test results of Step 3 (Model 2) and those of the Test 2 (Model 1) is equal to 4.003, indicating that there are not differences in order to explain the model.

Table 3
structural model by risk factors

Hypothesis Model	χ^2	df	p-value	χ^2/df	CFI	TLI	RMSEA	SRMR
Model 1: Unconstrained the path coefficient equal across group	246.202	91	0.000	2.705	0.971	0.964	0.066	0.111
Model 2: Constrained the path coefficient equal across group	250.205	94	0.000	2.661	0.97	0.965	0.066	0.086
$\Delta\chi^2_{2-1} = 4.003$					$\Delta df_{2-1} = 3$		$\chi^2_{0.05,9} = 7.81$	

Figure 2
The high risk tolerance group

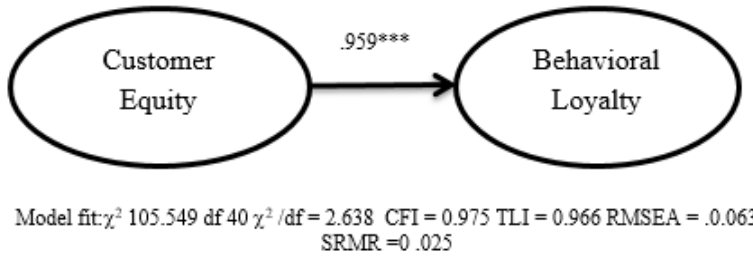
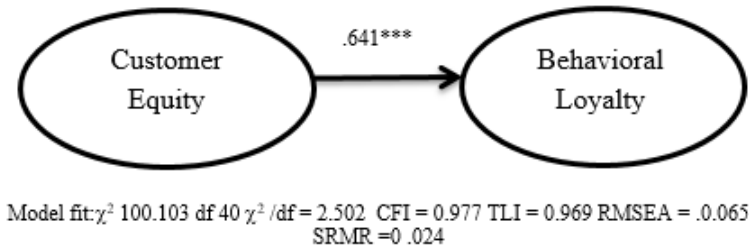


Figure 3
The low risk tolerance group



The results of the analysis concluded that models, without the forced constraints, are consistent with empirical data at a statistical significant level of 0.001, while those intervened with risk tolerance levels fluctuate as are shown in Figures 2 and 3.

Results of the analysis of variance of the causal relationship model by the risk tolerance levels of the investors reveal that the levels of investors' ability to accept risks both in the High and Low risk tolerance levels had a significant influence on the causal model of the customer equity and their behavioral loyalty at the level of 0.001. However; in the high risk tolerance group, the customer equity has a direct, positive influence on behavioral loyalty with a statistically significant level of 0.001, with a higher influence, equals to 0.959. While for the low risk tolerance group the customer equity has a direct positive influence on behavioral loyalty with a statistically significant level of 0.001 but with a lower influence level of 0.641.

Discussion of Results and Recommendations

This section presents and discusses the main findings of the variability of the model of customer equity that affects their behavioral loyalty by the different degrees of risk tolerance available for investment as the moderator. Recommendations for securities companies and for further studies are discussed accordingly.

This research focuses on the influence of different degrees of risk tolerance of individual investors as a moderating variable on the causal relationship between customer

equity and their behavioral loyalty to the securities business. Investors were divided into 2 groups of high and low risk tolerance levels according to the results of the analysis of the investment behavior of retail investors in the Stock Exchange of Thailand (SET). It was found that the different levels of risk tolerance of investors had an influence towards customer equity and behavioral loyalty to the business. This can be inferred that the risk tolerance of different investors affects their investment in the stock market. Some previous research discussing the volatility of the stock market and the return on investment, found that there should be strategies to diversify investment risks. Creating risk management strategies and eliminating risks should be done for a good future of investment. Educating and training should be provided for investors to locate appropriate new approaches in investment, such as the use of fundamentals and technical risks to reflect different approaches in recognizing effective investment opportunities.

For the high risk tolerance level investors the customer equity has a direct, positive influence on behavioral loyalty with statistical significance of 0.001, with a higher level of influence equals to 0.959. It can be interpreted that investors who accept high risk have healthier level of loyalty. This may be due to a better personal understanding and level decision making, as well as ability in adapting in every situation in investment. The company can serve the increased demand with additional value services, such as providing a variety of financial products, more advanced technologies or precise investment analysis programs to meet their needs and help facilitate purchases and transactions of this group of high risk tolerance investors. At the same time, the low risk tolerance level investors also have a direct positive influence of customer equity on behavioral loyalty with statistical significance at the level of 0.001, but with a lower level of influence equals to 0.641. This can be interpreted that those investors who accept low risk have lower behavioral loyalty than those in the high risk group. It may be due to lack of understanding of complicated financial products so they are less courageous to invest. The company needs to encourage this group of customers by providing better understanding and more knowledge in financial products and purchasing and transaction procedures to build confidence in investment.

More importantly, future research should be conducted to test other models that are more suitable for specific products, customer profile, culture and country. Nevertheless, the researchers would finally make a point that the factors affecting the customer's purchase decision and intention to buy are more from quality of services that creates more satisfaction.

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