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Customer satisfaction and dissatisfaction in retail banking: Exploring the asymmetric impact of attribute performances

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ABSTRACT

The paper presents the results of an extensive study on the determinants of customer satisfaction for a retail bank. In doing so, it uses a revised version of the traditional analyses based on derived measures of attribute importance. The need for a revised methodology is prompted by the insights of the two- and three-factor theories of customer satisfaction, such as Kano's framework. Indeed, the evidence from 5000 customers of a prominent Italian bank confirms a non-linear and asymmetric relationship between attribute performances and overall customer satisfaction. The results from both a traditional and our revised approach are compared. While this approach can be applied across different industries, it should not be assumed that the numerical results presented in the paper apply to contexts with substantially different underlying characteristics. General trends and implications for banking services are reported in the conclusions.

1. Introduction

The relevance of customer satisfaction in financial services has been widely investigated and assessed by the literature. Following an increase in positive evidence, the focus on customer satisfaction has become a primary goal, especially in the retail banking industry. A full understanding of its antecedents has therefore become a critical issue for both researchers and practitioners.

This paper presents the results of an extensive study on the determinants of customer satisfaction in a prominent Italian bank. It uses a revised version of the traditional analyses, based on derived measures of attribute importance (e.g. Dolinsky, 1991). The need for a revised methodology is prompted by the intuitions of the two- and three-factor theories, which demonstrated a non-linear and asymmetric relationship between attribute performances and overall customer satisfaction (Anderson and Mittal, 2000; Brandt, 1988; Gale, 1994; Johnston, 1995; Kano, 1984; Matzler and Sauerwein, 2002; Oliver, 1997).

2. Background and literature review

2.1. Customer satisfaction in the banking industry

A growing number of retail banks are directing their strategies towards customer satisfaction. In fact, researchers have demonstrated that customer satisfaction serves as a link to critical consumer behaviors, such as cross-buying of financial services, positive word-of-mouth, willingness to pay a premium-price, and tendency to see one's bank as a "relationship" bank (Winstanley, 1997; Ehigie, 2006; Ndubisi, 2006).

Ultimately, these behaviors proved to have a positive impact on key corporate outcomes, such as retention rates, average deposit amounts, cost to the bank of providing services, and future earnings (Winstanley, 1997; Nagar and Rajan, 2005; Manrai and Manrai, 2007). These results are consistent with a broader literature assessing the positive relationship between customer satisfaction and firm profitability (cf. Anderson et al., 1994; Fornell et al., 1996; Johnson et al., 1996; Ittner and Larcker, 1998; Eklof et al., 1999; Zeithaml, 2000).

Following the evidence from these studies, the value of identifying the most influential factors to trigger satisfaction and dissatisfaction in retail banking becomes especially clear. This information allows the firm to steer and optimize its marketing efforts given its limited resources, keeping in mind that market-based assets, in turn, will increase shareholder value (Day and Fahey, 1988; Srivastava et al., 1998).

Over time, researchers have identified many antecedents of customer satisfaction in different service industries (e.g. Oliver, 1993; Levesque and McDougall, 1996; Varki and Colgate, 2001).

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Table 1
Drivers of customer satisfaction in retail banking.

Dimension	Attributes	Authors	Method
Functional quality	Reliability, speed, accuracy, security, functionality	Levesque and McDougall (1996), Winstanley (1997), Jamal and Naser (2003), Jones (2004), and Ndubisi (2006)	Factor analysis, ordinary least squares (OLS) regression, stepwise regression, OLS regression
Relational quality	Responsiveness, assurance, friendliness, courtesy, commitment, communication	Levesque and McDougall (1996), Johnston (1997), Winstanley (1997), Lassar et al. (2000), Oppewal and Vriens (2000), Jamal and Naser (2002), Jamal and Naser (2003), Jones (2004), and Ndubisi (2006)	Structural equation model (SEM), critical incident technique (CIT), OLS regression, conjoint analysis, stepwise regression
Convenience	Opening hours, travel distance, queuing time, parking places, ATM availability	Manrai and Manrai (2007), Levesque and McDougall (1996), Oppewal and Vriens (2000), Jones (2004), Manrai and Manrai (2007)	Factor analysis
Economics	Charges/interest rates, price-quality ratio, price fairness	Levesque and McDougall (1996), Varki and Colgate (2001), Nagar and Rajan (2005), Manrai and Manrai (2007), Matzler et al. (2006)	Structural equation model (SEM), multivariate linear regression, multiple linear regression analysis
Tangibles	Phisycal layout and furniture, phisycal facilities, dècor of branch environment, atmosphere of branch environment, cleanliness of branch environment, size and furnishing of customer space, dress of the personnel	Positive impact on customer satisfaction: Levesque and McDougall (1996), Jamal and Naser (2002), Jamal and Naser (2003), no impact on customer satisfaction: Wakefield and Blodgett (1999), Oppewal and Vriens (2000), and Jones (2004)	OLS regression
Problem	handling and recovery	Capability to avoid potential conflicts, efficient and effective handling of complaint, efficiency of solving problems, speed of finding and restoring errors	Levesque and McDougall (1996), Winstanley (1997), Ndubisi (2006), and Manrai and Manrai (2007)

Several studies, for example, have emphasized the link between satisfaction and the "service quality" construct (Taylor and Baker, 1994; Levesque and McDougall, 1996; Johnston, 1997; Jamal and Naser, 2002; Ndubisi, 2006; Lassar et al., 2000; Oppewal and Vriens, 2000). The traditional operationalization of service quality (Parasuraman et al., 1985, 1988) includes five dimensions: reliability, tangibles, responsiveness, assurance, and empathy. Building on the work of Parasuraman et al., other research in the banking literature distinguishes between two main dimensions affecting customer satisfaction: the quality of the core service provided by the bank and the quality of the relationship with the bank. Relevant drivers within the first dimension include "reliability", "security", "functionality", "accuracy", and "speed" (cf. Levesque and McDougall, 1996; Winstanley, 1997; Jamal and Naser, 2002, 2003; Jones, 2004; Ndubisi, 2006). Relationship drivers seem to be even more important and include "responsiveness", "competences", "assurance", "trust", "friendliness", "courtesy", "availability", "commitment", "flexibility", and "communication" (cf. Levesque and McDougall, 1996; Johnston, 1997; Winstanley, 1997; Jamal and Naser, 2002, 2003; Lassar et al., 2000; Jones, 2004; Oppewal and Vriens, 2000; Ndubisi, 2006; Manrai and Manrai, 2007).

Another recurrent key factor is the perception of costs, specifically "price fairness" and "price-quality ratio" (Levesque and McDougall, 1996; Winstanley, 1997; Varki and Colgate, 2001; Matzler et al., 2006). Further satisfaction drivers are peripherals like the "location", both in terms of convenience and accessibility (Oppewal and Vriens, 2000; Manrai and Manrai, 2007). More controversial is the significant impact of other "tangibles", such as the "physical layout" of the bank (Johnston, 1997; Oppewal and Vriens, 2000; Jones, 2004; Manrai and Manrai, 2007).

Finally, researchers emphasize the positive role played by problem-handling skills, like "capability to avoid potential conflicts", "efficient and effective handling of complaint", "efficiency of solving problems", and "speed of finding and restoring errors" (Levesque and McDougall, 1996; Ndubisi, 2006; Manrai and Manrai, 2007). A summary of this literature review is offered in Table 1.

2.2. *The three-factor theory of customer satisfaction*

Most of the studies reported on the pages above use indirect measures to assess the importance of attributes in retail banking. Typical indirect measures are the coefficients of a multiple regression where the dependent variable is an overall performance rating (e.g. overall customer satisfaction), and the independent variables are specific performance ratings for each attribute (Dolinsky, 1991; Wittink and Bayer, 1994; Anton, 1996; Taylor, 1997; Lowenstein, 1995).

However, the implicit importance estimated this way would be an *average* importance and would overlook any asymmetric relationship between attribute performance and overall customer satisfaction (Mittal et al., 1998; Matzler et al., 2004; Deng et al., 2008). This is a relevant shortcoming of the previous literature, which conflicts with both evidence and theory.

Studies on customer satisfaction demonstrate that product attributes may affect overall satisfaction in a non-linear way. Preliminary studies from the 1970s and 1980s were successful in testing a two-factor theory of customer satisfaction (Swan and Combs, 1976; Maddox, 1981; Cadotte and Turgeon, 1988). They demonstrated that consumers judge products on a limited set of attributes, some of which are relatively important in determining satisfaction, while others are not critical to consumer satisfaction but unsatisfactory performance in these attributes may lead to dissatisfaction.

Kano (1984) was the first to formalize these intuitions, adding original contributions to the theory. Kano's model was later refined by other studies (Anderson and Mittal, 2000; Brandt, 1988; Gale, 1994; Johnston, 1995; Matzler and Sauerwein, 2002; Oliver, 1997). These authors distinguish three categories of attributes: basic factors, excitement factors, and performance factors (Fig. 1).

Basic factors (or Kano's dissatisfiers) are minimum requirements that do not have a positive impact on satisfaction if expectations are exceeded, but generate dissatisfaction if they are not fulfilled. Excitement factors (or Kano's satisfiers) are delighting attributes that have no impact on dissatisfaction, but can foster satisfaction if delivered. Finally, performance factors (or Kano's one-dimensional factors) have a symmetric impact on both satisfaction and dissatisfaction, in proportion to their level of fulfillment.