A PILOT EXAMINATION OF CUSTOMER SATISFACTION: IMPLICATIONS FOR CREDIT UNION PRODUCT/SERVICE STRATEGY

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ABSTRACT

Achieving customer satisfaction has long been a primary objective for firms trying to create a differential advantage in the marketplace. Customer satisfaction has been measured through many different approaches and in a host of different industry settings. This research represents a pilot examination of customer satisfaction in the Financial Services sector. In particular, the research focuses on developing measures of customer satisfaction in a Federal Credit Union. Results will be used to assist credit union management in the planning and design of product offering and overall service strategy.

INTRODUCTION

Changes in the make up and composition of the market structure for Financial Services have caused many firms to adjust both short and long term strategies to remain competitive. Consistent public policy changes have forced firms in this industry to adjust their strategic direction. Credit Unions, which serve as one of a variety of players in this industry, have been particularly impacted by these structural and policy changes. Competitive modifications to product and service offerings, expanded and enhanced technology, government regulation, etc. have forced many organizations to completely re-vamp their positions in attempts to create competitive advantage in their respective marketplaces.

While extensive research exists on customer satisfaction in general and the financial services sector in particular, very little emphasis has been placed on the application of satisfaction research to credit unions. This might be explained by the more recent growth and resulting influence credit unions have had on this economic sector of society. Evidence of this is provided by Ferguson and McKillop (2000) who deal with classifying credit union development in terms of industry types. The authors identify the effect of deregulation in 1977 resulting in the introduction of a less restrictive interpretation of common bond requirement for membership, liberalization of the product/service offering and "professionalization" of management. According to the authors, during the decade of 1983 to1993, credit union membership experienced growth of 34%, total assets grew at a rate of 270%, the number of credit unions decreased by 32% due to consolidation, and 25% of the population are now members of a credit union. The purpose of this study is to begin to bridge this gap in research by placing an emphasis on customer satisfaction and its usefulness to the credit union sector.

The specific credit union in this study traces its history to a charter date of 1965. This particular organization is based on a University affiliation with members largely consisting of faculty and staff under direct employment by the University. Since 1990, the Credit Union has experienced consistent growth in terms of both assets and members (Appendix – A). Recent strategic changes have included the move to a new location with comprehensive new facilities and systems. In addition, the organization has expanded the field of membership to include students. It is expected that a penetration of this market over the next three years will lead to a forty percent growth in overall membership.

Literature Review

The literature in this research domain stems from past studies and insights from the consumer behavior/marketing discipline, behavior related to the broad services sector of the economy including banking and financial services, and research more specifically on credit unions. Each stream offers significant contributions to the current conceptual framework of consumer satisfaction and empirical insights regarding its role in organizational service strategy.

Much of the current work in customer satisfaction stems from the widely accepted "expectancy confirmation model" proposed by Oliver (1980). In this approach, expectations and disconfirmation are considered to be the primary antecedents of satisfaction. Extensions to this perspective highlight disconfirmation as the variable providing the majority of the influence on satisfaction Oliver

(1993). Further examination of satisfaction by Johnson and Fornell (1991) suggests that perceived performance plays a primary role in predicting satisfaction levels. In terms of the broader customer service concept, Zeithaml et al (1988) focus on service quality in their analysis as well as the role played by communication and control processes within the organization. This "Conceptual Model of Service Quality" has served as a primary foundation for continued work on the service aspects of customer satisfaction.

In terms of customer satisfaction, the financial services segment has recently seen increased attention and study. For example, Van Montfort et al (2000) apply the widely accepted expectancy-disconfirmation model identified above to situations within the financial services sector. According to Van Montfort et al, "The primary predictive element of consumer satisfaction is performance." Performance is seen as having a direct effect on satisfaction but no indirect effect through disconfirmation. Results suggest that customer satisfaction can be predicted by performance extremely well. In a similar vein, Krishnan et al (1999) examines customer satisfaction for financial services with an emphasis of determining the primary drivers of customer satisfaction. In this research, the quality of the customer interface is shown to positively influence service quality. The primary drivers of customer satisfaction in this study include satisfaction with product offerings, satisfaction with service delivery, and financial reporting.

Methodology

This paper is based on survey research as the main methodological approach. A questionnaire was developed and administered using primarily closed ended questions in a Likert-Type format (Appendix – B). Questions were developed based on discussions with practicing managers in the industry as well as relevant measurement variables derived from the literature. The questionnaire included various demographic descriptors, measures of satisfaction, product/service usage, and overall customer expectations. The survey was administered to three hundred randomly selected customers of a Federal Credit Union. This number represents approximately twenty five percent of the total customers (members) in this organization. The survey was administered via mail and included input from customers conducting business at the branch facility. The resulting sample consisted of 152 completed surveys based on a total membership of 1509. This represented a response rate of 50.66% or slightly

more than 10% of the total population of members at the time of the survey.

The data was subject for this paper to preliminary analysis using descriptive statistics in order to gain familiarity and begin to examine observable relationships. Additional, more detailed analysis is anticipated beyond the scope intent of this initial study.

Implications

Initially, the descriptive statistical results of the study will be assessed, organized and presented to credit union management to better understand customer perceptions on product/service usage and overall satisfaction levels. The data stemming from the research should also provide a wealth of primary data for examining demographic composition, satisfaction levels and corresponding product/service strategy for this type of operation. These preliminary results should provide useful in extending the knowledge base of financial service strategy in general and assist in developing alternatives for creating credit union product/service strategy and competitive advantage in particular. Results will be targeting for presentation to relevant local institutions and members involved in the planning process for the credit union.

For preliminary analysis, the sample was split in two groups reflecting high and low levels of satisfaction. Comparisons of the data suggest that there are key differences among several of the demographic variables. While results show generally high levels of satisfaction, this level appears to vary across the demographic variables such as age, tenure as a credit union member, and patronage frequency. Managerial implications stemming from this are for the need to consider segmenting customers to allow for more targeted product/service design and a tailoring of other market mix considerations. Satisfaction levels do not appear to vary based on gender.

In terms of the individual measures of satisfaction, facility accessibility is identified as a primary concern among patrons and an area where high levels of dissatisfaction are found. A long term plan directly related to site location appears to be warranted. This consideration should include an assessment of the role of electronic banking and its relation to location considerations accented by patrons in several areas of the study. Electronic banking appears to be intertwined with customer reach and additional location considerations. There is also evidence of interest in expanded product offering that is particular to specific segments of the

existing customer base. Extremely high levels of satisfaction are evident in the area of personnel and interaction with customers.

Limitations and Future Directions

Due to the growth and changing composition of credit union membership in this research, management should place a continued emphasis on the study of forces impacting customer satisfaction. While results show general satisfaction, dissatisfaction with individual measures suggest a need for market mix modification as well as identifiable opportunities for improvement.

This research effort represents a single credit union thus making generalization to other credit unions and financial service firms risky. Expanded analysis is necessary to more fully understand the underlying influences on satisfaction as it relates to the broader industry. Expanding the study to include a wider scope in terms credit union size and geographic location would move the applicability beyond organization specific strategy to industry level analysis and recommendations. Examining differences in variables such as life cycle stage, peer group association, and geographic location could offer richer and more meaningful information applicable to the broader credit union sector of financial services industry.

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APPENDIX – A
CREDIT UNION ATTRIBUTES

Charter Date – 1965
Nine Member Board of Directors
Industry Peer Group Categories and Association
        $0 – $2,000,000
        $2,000,000 – $10,000,000***
        $10,000,000 – $50,000,000
        $50,000,000 – $100,000,000
        $100,000,000 plus

Date	Assets	Asset Growth	Members	Member Growth
12/31/80	$325,594	n/a	404	n/a
1/31/86	$1,011,056	3.11	530	1.31
5/31/90	$2,014,959	1.99	854	1.61
1/31/93	$3,012,492	1.50	987	1.16
1/31/00	$4,053,600	1.35	1,187	1.20
4/30/02	$5,004,182	1.23	1,265	1.07
5/31/03	$6,027,107	1.20	1,284	1.02
5/20/04	$6,190,996	1.03	1,509	1.18

APPENDIX – B
SURVEY INSTRUMENT

1. Gender

    Male
    Female

2. Age

    15-18
    19-25
    26-35
    36-50
    51-60
    61>

3. Tenure – How long have you been a member of the Clarion University FCU?
    Less than 12 months
    1-5 years
    6-10 years
    More than10 years

4. Affiliation – Which membership group are you affiliated with?
    CUP Staff
    CUP Administrator
    CUP Faculty
    Student
    Family Membership
    Other

5. Mail – Do you conduct Credit Union business in person or via the mail?
    By mail
    In person

6. Patronage - How often do you conduct credit union business?
    Several times a week
    Once a week – twice monthly
    Once a month – less than once a month

 Please check the services that you have utilized at the Credit Union

 7. ATM
 8. CD's
 9. Club account
10. Debit Cards
11. Direct Deposit
12. IRA's
13. Auto loans
14. Other loans
15. Money order
16. PHEAA loans
17. Payroll Deduction
18. Savings
19. Theme park discount coupons

20. Travelers Checks
21. Wire Service
22. Western Union

23. Products – Total number of products used.

24. Hours1 - Are our business hours convenient for you?
     Yes (4)
     No (2)

If no, which hours are most convenient?

25.   Hours - Monday – Thursday 8:30 a.m. – 3:30 p.m.
                     Monday – Thursday 8:30 a.m. – 4:30 p.m.

26. Hours - Friday 8:30 a.m. – 5:00 p.m.
                 Friday 9:00 a.m. – 5:30 p.m.

Please rate your credit union on the following:
     Excellent
     Good
     Fair
     Poor

27. Adequate waiting area
28. Location/accessibility
29. Privacy
30. Parking
31. Staff Courtesy
32. Overall Service

Please check the services you would use if available at your credit union.

33. Credit Cards
34. Electronic bill pay
35. Automated Teller Machine
36. Mortgages
37. Drive through window
38. Home equity loans
39. Home banking
40. Expanded hours

41. Do you read the Credit Union Newsletter sent to you?
     Yes
     No

42. Satisfy - Overall level of customer satisfaction measured by summing the scores from questions number
     24, 27, 28, 29, 30, 31, 32