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Identifying Bank Customers' Needs and Priorities: A Kano Model Approach

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Abstract

The competitive landscape of the banking industry necessitates a strong focus on customer satisfaction and loyalty to ensure long-term profitability and survival. This study investigates the dimensions of banking services that impact customer satisfaction and loyalty, utilizing Dr. Noriaki Kano's model of customer satisfaction. The Kano model categorizes service requirements into must-be, one-dimensional, attractive, indifferent, and reverse qualities, and is applied here to understand the influence of various bank service features on customer satisfaction in Bangladesh. A survey was conducted with 1,000 bank customers across the country, employing a random sampling method. The results were analyzed based on Kano's evaluation table, which classified customer needs into categories and calculated satisfaction and dissatisfaction coefficients for each criterion. The study found that essential service features, such as adherence to banking schedules and staff punctuality, are crucial for customer satisfaction, while aspects like employees' neat appearance and modern banking technology, though impactful, do not result in customer dissatisfaction when absent. The findings suggest that banks should prioritize their efforts and resources toward high-impact features that enhance customer satisfaction and loyalty. These insights can guide banking institutions in Bangladesh to improve their services and potentially serve as a foundation for comparative studies in other regions or sectors.

Keywords: Kano Model, Priority, Satisfaction, Coefficient, Needs.

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1. INTRODUCTION

In the highly competitive banking industry, customer satisfaction and loyalty are pivotal for long-term success. Banks face the challenge of identifying and prioritizing customers' needs to offer services that not only meet but exceed their expectations. New marketing ideas have been embraced by numerous prosperous businesses and organizations, and they behave appropriately. To achieve their objectives, the firm must prioritize the needs of its customers and appropriately address their requests. As fundamental ideas in the organization's profit chain, top companies have discovered that they won't be questioned if the most popular and successful product doesn't satisfy the needs, wants, and expectations of the client (Mostafa et al., 2013).

The relevance of consumer demands has increased due to more competitive marketplaces, the breakdown of economic borders, the globalization of the economy, and customer expectations and needs (Rezaee, K., Ashtiani, HR., & Hushyar, M., 2005). In the age of globalization, it is arguably the most evident banking phenomenon (Etebarian, A., & Bakhsh, M.F., 2008). Therefore, it may be difficult to satisfy and retain customers in a strong, competitive market; business and trade-based strategies must be developed. Customers now drive the organization cycle in the global economy, and businesses cannot ignore the requirements and desires of their clients. Since it is a fair source of investment return among clients, they ought to make an effort to take into account their activities and talents.

This study focuses on examining the dimensions of banking services that influence customer satisfaction and loyalty by employing the Kano Model, a popular framework for understanding customer preferences and categorizing them into different requirement types: must-be, one-dimensional, attractive, indifferent, and reverse. Originally developed by Professor Noriaki Kano in the 1980s, the Kano Model has been widely used across industries to classify customer requirements based on how they impact satisfaction levels (Kano et al., 1984). Through this study, we aim to categorize and prioritize the different aspects of banking services that influence customer satisfaction and loyalty using the Kano Model. By understanding these requirements, banks can better allocate resources, improve service offerings, and build lasting relationships with their customers.

2. LITERATURE REVIEW

The banking industry has long focused on customer satisfaction and loyalty as critical indicators of success. Numerous studies have explored the relationship between service quality and customer satisfaction, drawing attention to various factors that influence customers' perceptions of banking services. The application of the Kano Model in service industries provides a valuable framework for categorizing service attributes based on their impact on customer satisfaction, allowing for targeted service improvements (Matzler & Hinterhuber, 1998; Yang, 2005). The Kano Model divides customer requirements into five categories: must-be, one-dimensional, attractive, indifferent, and reverse. Must-be requirements are the fundamental expectations that customers have. Their absence can lead to dissatisfaction, but their fulfillment does not necessarily increase satisfaction (Tan & Pawitra, 2001). One-dimensional requirements, on the other hand, contribute directly to satisfaction when fulfilled and to dissatisfaction when absent. These requirements are particularly significant in the banking industry, where service reliability and responsiveness are highly valued by customers (Kano et al., 1984). Attractive requirements are unexpected features that delight customers when present but do not cause dissatisfaction when absent (Lee & Newcomb, 1997). These attributes can create competitive advantages in the banking sector by exceeding customer expectations.

Previous research has focused on using the Kano Model to evaluate customer satisfaction in various service contexts, including healthcare (Musa & Dauda, 2017), hospitality (Lin et al., 2017), and telecommunications (Chen et al., 2016). However, there is a limited body of research that applies the Kano Model specifically to the banking sector, particularly in terms of identifying service dimensions that prioritize customer needs and preferences (Ladhari et al., 2011). Studies that do address banking services often lack a comprehensive analysis of all five categories of the Kano Model, with most focusing solely on must-be and one-dimensional requirements. Consequently, attractive, indifferent, and reverse requirements remain underexplored in the context of banking services.

Despite the extensive application of the Kano Model across various industries, its use in the banking sector has been limited and fragmented. While existing studies have provided insights into must-be and one-dimensional requirements, there is a need for a more comprehensive investigation into how all five categories of the Kano Model influence customer satisfaction and loyalty in banking services. This study aims to fill this gap by exploring must-be, one-dimensional, attractive, indifferent, and reverse requirements in the banking sector. By doing so, it seeks to provide a holistic understanding of customer needs and priorities, offering a nuanced perspective that can guide banks in optimizing their service offerings.

3. METHODOLOGY

3.1 Research Approach

Customer satisfaction was considered as one-dimensional process previously. It was considered that high-quality perception of goods results in more satisfied customers and conversely. However, the fulfillment of each product features at high levels does not necessarily provide customer satisfaction. Thus, the Kano customer satisfaction model introduced the methodology that determines what components of the characteristics of goods and services have an influence on customers' satisfaction. Kano model identifies factors affecting bank customers and prioritizes them in order of importance by using background research, expert, and customer opinions. Kano model divides needs into basic needs, expected needs, and excitement needs; and specifies the rank of each need within the groups. On the other hand, these needs and criteria are put into five different groups (must-be requirements, one-dimensional requirements, attractive requirements, indifferent quality, and reverse quality). Then the needs that respectively obtained by Kano model groups will be measured.

Must-be, one-dimensional and attractive requirements as well as product requirements towards which the customer is indifferent can be classified by means of a questionnaire. For each product feature a pair of questions is formulated which the customer can answer in one of five different ways (see also Kano, 1984). The first question concerns the reaction of the customer if the product has that feature (functional form of the question), and the second concerns his reaction if the product does not have that feature (dysfunctional form of the question).

Table 1: Kano matrix

Customers Requirement		**Dysfunctional Question's rating (Negative Question)**				
		1. Like	**2. Must be**	**3. Neutral**	**4. Live with**	**5. Dislike**
Functional Question's Rating (Positive Question)	**1. Like**	**Q**	**A**	**A**	**A**	**O**
	2. Must be	**R**	**I**	**I**	**I**	**M**
	3. Neutral	**R**	**I**	**I**	**I**	**M**
	4. Live with	**R**	**I**	**I**	**I**	**M**
	5. Dislike	**R**	**R**	**R**	**R**	**Q**

Table produces category A, indicating that accountability is an attractive customer requirement from the customer's viewpoint. If combining the answers yields category I, this means that the customer is indifferent to this product feature. Category Q stands for questionable results. Normally, the answers do not fall into this category. Questionable scores signify that the question was phrased incorrectly or that the person interviewed misunderstood the question or crossed out a wrong answer by mistake. In the study quoted here, no product criterion received a Q-rate much higher than 2%. If looking up the answer in the evaluation table yields category R, this product feature is only not wanted by the customer but he even expects the reverse.

The evaluation is Prioritized according to [O]> [M]> [A]> [I].

The customer satisfaction coefficient indicates the extent to which satisfaction increases if a product requirement is met or the extent to which satisfaction decreases if a product requirement is not met. It is useful to know the average impact of a product or service requirement on the satisfaction of all customers. The calculation of this coefficient is as follows.

The extent of satisfaction:

$$\frac{A+O}{A+O+M+I}$$

The extent of dissatisfaction:

$$\frac{O+M}{(A+O+M+I)*\ (-1)}$$

There is a negative sign in the denominator of the CS-coefficient of customer's dissatisfaction in order to show its negative effect on customer satisfaction, if this product quality is not given. The positive CS coefficient ranges from 0 to 1; the closer the value is to 1, the higher the effect on customer satisfaction. A positive CS coefficient which closes to 0 signifies that it has a very little effect. At the same time, however, one must also take the negative CS-coefficient into consideration. If it is close to -1, the effect on customer dissatisfaction is especially strong if the analyzed product feature is not fulfilled. A value of about 0 signifies that this feature does not cause dissatisfaction if it is not met.

3.2 Sampling and Data Source

For the study primary data of 1000 customers of Banks were collected from the whole country, samples were selected from each division of the country, random sampling procedure was applied to select the sample.

The sample size was determined using the formula:

$$n=\frac{z^2{}_{1-\frac{\alpha}{2}}}{d^2}pq$$

Where,

n = Sample size
z = Standard normal deviate
p = Assumed proportion in the target population
d = degree of accuracy desired in the estimated proportion

Here,

z = 1.96,
p = 0.38 (assumed)
q = 1-p = 1- 38 = 0.62
d = 0.03

So, $n = \frac{z^2{}_{1-\frac{\alpha}{2}}}{d^2} pq = \frac{(1.96)^2(0.62)(0.38)}{0.03^2} = 1005 \approx 1000$

4. DATA ANALYSIS AND RESULTS

In Table 2, customers' needs are classified into 4 groups (employee, technology, physical feature, and banking system), and the calculated frequency for needs is given in front of each of these needs. Therefore, we can compare the priorities, which have gained a higher percentage frequency.

Table 2: Identification of product and prioritizing requirements

	Customers Need	**O**	**M**	**A**	**I**	**R**	**Q**	Cat.
Employee	Waiting time	**40.3%**	27.2%	20.4%	8.3%	2.3%	1.5%	**O**
	Employees accountability	**38.7%**	31.6%	21.2%	6.2%	1.2%	1.1%	**O**
	Punctuality and proficiency	29.6%	**36.1%**	21.3%	9.2%	2.6%	1.2%	**M**
	Employees neat and clean appearance	24.5%	25.7%	**38.3%**	7.1%	2.3%	2.1%	**A**
	Talking to senior management	21.3%	25.3%	23.9%	**26.3%**	1.9%	1.3%	**I**
Technology	Increasing ATM	29.6%	**35.2%**	21.3%	9.8%	1.9%	2.2%	**M**
	Talking to right person in call center	29.2%	**31.2%**	24.2%	10.1%	3.4%	1.9%	**M**
	Using modern banking	27.2%	25.3%	**31.2%**	11.1%	2.9%	2.3%	**A**

	Email & SMS bank account information	23.7%	29.3%	**30.1%**	12.6%	2.2%	2.1%	**A**
	Computerized papers and form	23.3%	22.3%	21.9%	**25.3%**	4.9%	2.3%	**I**
	Locating bank on Google map	22.1%	23.8%	22.1%	**24.7%**	6.1%	1.2%	**I**
Physical features	Cleanness of bank environment	**33.3%**	28.1%	23.1%	8.2%	5.1%	2.2%	**O**
	Car parking facility	30.1%	**32.2%**	28.6%	4.2%	3.4%	1.5%	**M**
	Arrangement of bank section	21.1%	23.5%	**33.6%**	8.8%	10.1%	2.9%	**A**
	Attractive interior decoration of the bank	20.5	21.2	22.5	**25.4%**	7.3%	3.1%	**I**
Banking system	Banking schedule accordance in emergency	**48.1%**	21.3%	22.8	4.2%	2.5%	1.1%	**O**
	Security of personal information	29.8%	**35.1%**	23.6%	7.1%	2.1	2.3%	**M**

In the group of one-dimensional needs, banking schedule accordance in emergency gained 48.1% frequency confirming that in order to keep customers happy a bank must give first priority to their banking schedule in accordance with customers' banking schedule. In the group of must-be-given needs, punctuality, and proficiency gained 36.1% which is higher than any other needs in this group. So, it is necessary to employ bank staff who are punctual and disciplined, proficient in working skills, and pleasant in behavior in order to keep bank customers happy. In the group of attractive needs, employees' neat and clean appearance carries 38.3% frequency. It will lead to customer satisfaction high but it may not be the reason for their disappointment because it is in the attractive need group. Finally, in the group of indifferent needs customers are indifferent about talking to senior management oftentimes, providing computerized papers and forms, locating banks on Google Maps, and attractive interior decoration of the bank. These criteria may increase the customer's perceived image of the bank but they reported they don't really care about these criteria.

Table 3: Computation result of CS coefficients for customer's need

			Extent of Satisfaction and Dissatisfaction CS-Coefficient	
	Customers Need	**Category**	**Satisfaction** $= \frac{A+O}{A+O+M+I}$	**Dissatisfaction**$= \frac{O+M}{(A+O+M+I)*(-1)}$
Employee	Waiting time	**O**	0.6310	-0.7017
	Employees accountability	**O**	0.6131	-0.7195
	Punctuality and proficiency	**M**	0.5291	-0.6830
	Employees neat and clean appearance	**A**	0.6569	-0.5251
	Talking to senior management	**I**	0.4669	-0.4814
Technology	Increasing ATM	**M**	0.5308	-0.6757
	Talking to the right person in the call center	**M**	0.5639	-0.6378
	Using modern banking	**A**	0.6160	-0.5537
	Email & SMS bank information	**A**	0.5622	-0.5538
	Computerized papers and form	**I**	0.4871	-0.4914
	Locating bank on Google map	**I**	0.4768	-0.4951
Physical features	Cleanness of bank environment	**O**	0.6084	-0.6624
	Car parking facility	**M**	0.6172	-0.6551
	Arrangement of the bank section	**A**	0.6287	-0.5126
	Attractive interior decoration of the bank	**I**	0.6671	-0.6470

Banking system	Banking schedule accordance in emergency	**O**	0.9892	-0.2950
	Security of personal information	**M**	0.5586	-0.6789

In Table 3, we have computed the customers' satisfaction coefficient for each criterion, which indicates most of these criteria are good to be provided.

5. DISCUSSION AND FINDINGS

This study's findings, which categorize customer needs into the Kano Model's five requirement types—must-be, one-dimensional, attractive, indifferent, and reverse—provide a nuanced understanding of what drives customer satisfaction and loyalty in the banking sector. The study identifies banking schedule adherence during emergencies (48.1%) as the most significant one-dimensional requirement. Customers highly value the bank's flexibility in aligning their services with customer schedules during emergencies, emphasizing the importance of responsive and dependable service. The high dissatisfaction coefficient (-0.295) for this criterion further highlights that not meeting this requirement has a considerable negative impact on satisfaction. In existing literature, service responsiveness is frequently highlighted as a critical factor in customer satisfaction (Zeithaml et al., 1996). Our findings align with this, underscoring that responsiveness to customer needs during critical situations directly influences satisfaction. Additionally, the identified importance of waiting time (40.3%) as another significant one-dimensional requirement complements findings by Johnston (1995), who noted that long waiting times negatively impact service perception and satisfaction.

Must-be requirements are essential, and their absence can lead to customer dissatisfaction. In this study, punctuality and proficiency (36.1%) emerged as the most crucial must-be requirement. This finding reflects previous research by Levesque and McDougall (1996), which identified punctuality and employee professionalism as fundamental expectations in service industries, including banking. Similarly, it is found that increasing ATM availability (35.2%) and security of personal information (35.1%) are must-be requirements with high dissatisfaction coefficients. These align with Parasuraman et al.'s (1988) findings on the importance of tangible and reliable service elements in satisfying banking customers. For instance, the high dissatisfaction coefficient for personal information security (-0.6789) corroborates the significance of data protection in fostering trust and satisfaction, as noted by studies on service quality and customer perceptions (Rust & Oliver, 1994). In addition, among attractive requirements, employee appearance (38.3%) scored notably high. While customers do not expect this as a basic requirement, its presence enhances their experience, which is consistent with Matzler and Hinterhuber's (1998) assertion that attractive qualities can create significant satisfaction when they exceed customer expectations. Interestingly, modern banking options (31.2%), such as email and SMS notifications, are also perceived as attractive attributes. This reflects current trends in service delivery, where digital enhancements are valued by customers (Yang, 2005). Although these features do not detract from satisfaction if absent, their presence offers a competitive edge by fostering customer delight.

The study identifies several indifferent attributes, including talking to senior management (26.3%) and locating the bank on Google Maps (24.7%). These findings suggest that while such features may add to the perceived image of a bank, they are not essential to customer satisfaction. This contrasts with traditional views that all service elements should be optimized. The low impact of these indifferent attributes aligns with Silvestro and Cross's (2000) argument that businesses should focus resources on high-impact areas, avoiding investments in aspects with minimal customer interest. Besides, the study found no reverse requirements that would lead to dissatisfaction if present. This contrasts with certain studies in other industries, where undesirable features negatively impact customer satisfaction (Tan & Pawitra, 2001). The lack of reverse attributes in this banking context may indicate that customers prioritize basic functionality and value-added services, as opposed to avoiding specific attributes altogether. Furthermore, the customer satisfaction coefficients calculated in this study further emphasize the importance of prioritizing specific attributes. For instance, the high satisfaction coefficient for emergency banking schedule adherence (0.9892) suggests that this attribute significantly enhances customer satisfaction when present. The coefficients for must-be and one-dimensional attributes, such as waiting time (0.6310) and security of personal information (0.5586), reflect the expected correlation between fulfilling core service attributes and increased satisfaction. These findings align with Cronin and Taylor's (1992) research, which highlighted the correlation between essential service attributes and customer loyalty. The consistency of these results with prior studies reinforces the idea that banks should prioritize essential and high-impact attributes to maintain customer satisfaction.

While existing literature has extensively explored must-be and one-dimensional requirements in banking, this study adds depth by examining attractive and indifferent attributes. Previous studies, such as Ladhari et al. (2011), largely focused on the core expectations of customers, often overlooking aspects that can surprise or delight them. By identifying attractive features, such as digital notifications, the study provides actionable insights for banks to enhance satisfaction without merely meeting basic expectations. Overall, this study fills an existing gap in the literature by offering a comprehensive analysis of all five Kano Model categories within the banking sector. By distinguishing between various types of customer requirements, this research provides a nuanced understanding that can help banks make informed decisions on resource allocation, ultimately improving service offerings and fostering long-term customer loyalty.

6. CONCLUSION

This study provides a comprehensive understanding of the factors influencing customer satisfaction and loyalty in the banking sector, using the Kano Model to categorize customer needs into must-be, one-dimensional, attractive, indifferent, and reverse requirements. The results show that banks must prioritize core service attributes, such as punctuality, proficiency, and the security of personal information, to avoid dissatisfaction. Equally important are attractive features like employee appearance and modern banking options, which can elevate customer satisfaction when present. Additionally, one-dimensional requirements like emergency banking schedules and minimizing waiting times were identified as highly impactful, directly contributing to customer satisfaction when met and dissatisfaction when absent. Interestingly, indifferent attributes such as interacting with senior management or using Google Maps to locate the bank were deemed less critical by customers, suggesting that banks should allocate resources to higher-impact areas rather than focusing on features with minimal customer interest.

While the study adds value by exploring all five categories of the Kano Model in the banking context, several limitations must be acknowledged. First, the study's reliance on self-reported data may introduce bias, as customer perceptions are subjective and may not fully capture all relevant service attributes. Second, the study focuses on one geographical region, which may limit the generalizability of the findings to other banking markets with different customer expectations and service cultures. Finally, the dynamic nature of customer preferences, especially in response to technological advancements, suggests that further research is needed to continuously reassess the relevance of these requirements over time. In conclusion, this study offers valuable insights for banks to enhance customer satisfaction and loyalty by aligning service offerings with prioritized customer needs. However, ongoing evaluation and adaptation to changing customer expectations remain crucial for maintaining competitiveness in the evolving banking landscape.

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