THE DETERMINANTS OF CUSTOMER SATISFACTION in the financial planning industry

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Given the recent well-publicised failings in the financial planning industry, it is increasingly important for financial planners to recognise and understand the determinants of customer satisfaction. We examine whether technical service quality (delivering service in the right way) is more important than functional service quality (delivering service nicely) in ensuring satisfied customers. Using longitudinal customer satisfaction data from the Lifeplan ICFS Advice Satisfaction Index, we find that both technical and functional service quality positively affect customer satisfaction but technical service quality has a greater impact in driving customer satisfaction. Our results suggest that increasing technical service quality would be an efficient way for planners to ensure they have a satisfied customer base.

The Australian Government initiated the review of Future of Financial Advice (FOFA) to ensure the delivery of transparent and high-quality financial advice. High-quality advice is essential for the survival of financial planning firms but delivering high-quality advice alone is not sufficient to enhance firms’ profitability (Newman and Cowling 1996). These authors suggest that financial planning firms can enhance their profitability by delivering high-quality advice that generates high levels of customer satisfaction. It is worth noting that high levels of customer satisfaction can also enhance life satisfaction of customers (Irving et al. 2011). Given the importance of customer satisfaction, in order to translate high service quality to profitability and to increase life satisfaction for customers, it is very important for financial planners to understand the drivers of customer satisfaction when delivering these services.

Using the service quality framework, Maddern et al. (2007) suggest that financial planners can create high levels of customer satisfaction through technical service quality (delivering their services ‘in the right way’) and/or through functional service quality (delivering their services ‘nicely’). This paper aims to investigate whether technical service quality or functional service quality is more important in creating high levels of customer satisfaction within the financial planning sector. Our study benefits academia and industry in the following ways. First, by providing evidence on the relative importance of technical and functional service quality, our study extends Irving et al. (2011) in providing evidence on the mechanisms through which customer satisfaction is generated in the financial planning process. Our study also provides evidence on the relative importance of technical and functional service quality in the financial planning sector as documented by Lassar et al. (2000) and Newman (2001). Second, if technical service quality is more important than functional service quality in generating customer satisfaction, financial planners can enhance their customer satisfaction more efficiently through increasing their technical service quality.
Our data comes from joint work between Lifeplan Funds Management and the International Centre for Financial Services (ICFS) at the University of Adelaide in developing the Lifeplan ICFS Financial Advice Satisfaction Index. The index benefits from academic research in its development and is based on six-monthly (April and October) surveys administered by a third-party research company from April 2012 until April 2015. The survey is stratified by gender (55 per cent males and 45 per cent females), age (8 per cent below 30 years, 25 per cent between the ages of 30 and 44, 33 per cent between the ages of 45 and 59 years and 34 per cent above the age of 60 years inclusive) and is restricted to respondents who have been receiving financial advice for more than one year. The stratified sample ensures our survey reflects the Australian investing community in terms of gender and age.

**Customer satisfaction framework**

Maddern et al. (2007) suggest that there are three theoretical frameworks that can explain the drivers of customer satisfaction. First, the service profit-chain framework proposed by Heskett et al. (1994) suggests that satisfied staff leads to high levels of customer satisfaction. Second, the business process management framework, suggested by Roth and William (1995), asserts that good business process management would lead to high technical service quality and the combination of the two would generate satisfied customers. Third, the service quality framework, suggested by Parasuraman et al. (1985), argues that customer satisfaction can be achieved by delivering high service quality that exceeds customers’ expectations. Under this framework, high service quality can be delivered through technical and/or functional service. Our study uses the third framework because this framework can provide the answer to our research question on the relative importance of technical and functional service quality in creating high levels of customer satisfaction.

**Service quality framework**

Parasuraman et al. (1985) argue that services are intangible and heterogeneous, and that the production and consumption of services are inseparable. Given these characteristics, evaluating the quality of services is more difficult than evaluating the quality of goods. Parasuraman et al. (1985) suggest 10 elements of service quality indicators, subsequently simplified into five in a later work by the same group of authors. The five elements are reliability, assurance, tangibles, empathy and responsiveness (Zeithaml et al. 2010). Reliability refers to the ability to deliver the promised service dependably, accurately and in a timely way. Assurance refers to the knowledge and skills of staff as well as the ability of staff to use their expertise to instil customer trust and confidence. Tangibles refer to the physical evidence of the service (e.g. office equipment, brochures, a statement of advice/financial plan etc.). Empathy refers to willingness of staff to provide care and attention to customers. Finally, responsiveness refers to staff’s ability to provide a quick and high-quality service to customers.

The service quality framework suggests that customers are satisfied when their perception of the actual service quality exceeds their expectations of service quality (Parasuraman et al. 1985; Zeithaml et al. 2010). Conversely, customers are dissatisfied when their expectation of the service quality exceeds their perception of the actual service quality. Furthermore, Grönroos (1984) argues that the creation of high customer satisfaction levels in the service quality framework is not solely dependent on the technical quality of the service (i.e. whether the service has satisfied customer needs), it is also dependent on the functional quality of the service (i.e. how the service is delivered).
Service quality in finance: technical or functional quality?

Several studies investigate the relative importance of technical and functional factors in generating customer satisfaction in the financial services industry. Newman (2001) analyses the implementation of the service quality framework in a large bank in the UK and finds that technical service quality plays an important role in fulfilling the pre-condition of customer satisfaction. Newman (2001) suggests that excellent functional service quality or the ‘people factor’ (e.g. empathy) is not sufficient to compensate for low-quality technical service (e.g. reliability). Similar findings on the importance of technical service quality are documented by Lassar et al. (2000). The authors obtain data on private banking customers and find that technical service satisfaction is highly correlated with overall satisfaction and that technical quality variables have greater influence on overall customer satisfaction than functional quality variables. The findings in Lassar et al. (2000) are documented in private banking business where contact service between bankers and clients is very high and clients’ well-being is affected by how well the service is delivered (technical service quality).

These findings are contrary to the long-held beliefs in service marketing literature suggesting that functional service quality should dominate technical service quality in creating customer satisfaction (Maddern et al. 2007). However, as Woodall (2001) explains, outstanding technical service quality would deliver high-quality service consistently. Thus, this would lead to customer satisfaction as well as reducing the likelihood of customers switching service providers.

Data and methodology

Data

In order to examine the contribution of technical and functional quality to customer satisfaction, we analyse survey data from April 2012 to April 2015. A third-party research company distributes the Lifeplan ICFS Financial Advice Satisfaction Index surveys every six months to customers who subscribe to financial planning services. To be included in the sample a respondent has to have engaged the services of a financial planner for at least one year. In total there are seven survey cohorts analysed in this paper with 2,830 valid respondents. While the survey asks a multitude of questions, those relevant to this study are listed in Table 1.

TABLE 1: List of questions to measure customer satisfaction, plus technical and functional service quality

1. On a scale of 1 to 11 please rate to what extent you agree or disagree with the following statements?
   a. Overall, I am satisfied with my financial advisor.
   b. My financial advisor is reliable.
   c. My financial advisor has strong financial knowledge.
   d. I am satisfied with the service experience provided by my financial advisor.

2. Approximately how often do you physically visit with your financial advisor?

Similar to Voss et al. (2004) and Maddern et al. (2007), Question 1.a. asks respondents to evaluate their satisfaction of their financial planners while Questions 1.b. to 1.d. ask respondents to evaluate their satisfaction of the technical and functional service quality provided by their planners. Response choices range from 1 (strongly disagree) to 11 (strongly agree). Question 2 asks respondents how frequently they physically meet with their planners. As with previous studies we construct our technical and functional service quality measures to align with the five elements of service quality proposed by (Parasuraman et al. 1985; Zeithaml et al. 2010). Newman (2001) and Maddern et al. (2007) suggest that technical service quality should include reliability and tangibility while functional service quality measures should represent responsiveness, empathy and assurance. Reliability is considered as part of technical service quality because ‘getting it right the first time and all the time’ is very important for customers, especially in providing recommendations, keeping customers informed, as well as keeping up with appointments and due dates (Newman 2001). Question 1.b. of Table 1 reveals customer perceptions on the reliability of their planner and Question 1.c. reflects how well planners can convey their expertise to customers. Questions 1.b. and 1.c. overlap with tangibility because in delivering their services to customers financial planners would have to produce prospectuses, advice documents, and newsletter updates that would be considered as tangibles for customers.
We capture functional service quality through Questions 1.d. and 2 of Table 1. These questions capture how well financial planners deliver their service, more specifically planners’ responsiveness, empathy and assurance towards their clients. Question 1.d. asks respondents to reflect on the service experience that their planners provide in isolation from the planners’ technical service quality. We expect that respondents’ perceptions of service experience would capture planners’ responsiveness to clients’ needs and also indicate the level of empathy that planners provide when interacting with their clients. Question 2, frequency of a physical visit, would indicate accessibility to planners as well as demonstrate the level of assurance and empathy that planners provide to their clients. Frequency of physical visits may represent factors other than accessibility, assurance and empathy. However, (Irving et al. 2011) show that dissatisfied customers require better communication and a greater level of care and attention from their planners. These requirements can be fulfilled partially if not significantly by a face-to-face meeting. Table 2 presents the descriptive statistics for the variables listed in Table 1.

**TABLE 2: Descriptive statistics of the variables**

<table>
<thead>
<tr>
<th>Variable name</th>
<th>Mean</th>
<th>Median</th>
<th>St. dev</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>8.61</td>
<td>9.00</td>
<td>2.09</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Reliability</td>
<td>8.66</td>
<td>9.00</td>
<td>1.90</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Planners financial knowledge</td>
<td>8.85</td>
<td>9.00</td>
<td>1.76</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Service experience</td>
<td>8.22</td>
<td>8.00</td>
<td>2.21</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Frequency of physical visit</td>
<td>2.72</td>
<td>2.00</td>
<td>1.42</td>
<td>1</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 2 shows that the majority of our respondents are satisfied with their financial planners. The average satisfaction is 8.61 in a 1 to 11 Likert scale. Our respondents ranked the reliability and financial knowledge of their planners, and their service experience, similarly. The average frequency of a physical visit by our respondents is 2.72, which suggests that our respondents visit their planners at least once a year, with the proportion of respondents who physically visit their planners once a year greater than those who physically visit their planners twice a year. Standard deviations across the five variables are relatively similar suggesting a high level of agreement across respondents.

Besides gender and age group, we collect additional demographic information regarding the level of education and the length of time a respondent has subscribed to their planner. Customers’ perception of the service quality of planners can vary across different demographic groups and can affect the level of customer satisfaction. Age and gender information is important as different age groups have different requirements and expectations from a financial planner (Bae and Sandager 1997) and it has been documented that males and females behave differently when evaluating their financial satisfaction (Hira and Mugenda 2000). We collect information on the level of education of respondents because more educated customers may have higher expectations compared to less educated customers over similar services performed by financial planners. Finally, we also record how long a respondent has subscribed to the service of their current planner because the duration of service could be positively correlated with the level of customer satisfaction.

More than one-third (37 per cent) of our respondents have university level education holding Bachelor’s qualifications or higher. The rest of the respondents hold trade/TAFE qualifications (27 per cent), have completed high school (32 per cent), or do not have formal education qualification (4 per cent). Around 47 per cent of our respondents have subscribed to a planner service for between one to five years, 26 per cent have subscribed for six to 10 years, 15 per cent for 11 to 15 years and 12 per cent of respondents for more than 15 years. Most respondents in our sample are in the accumulation phase, rather than in the pension payment phase as 66 per cent of respondents are below the age of 60.
Before conducting further analysis, we examine whether our customer satisfaction variable correlates with the demographic characteristics of our sample. We find that customer satisfaction is positively correlated with length of the adviser–client relationship and age of our respondents, but is negatively correlated with level of education and gender (male is coded as 1). Consequently, we find that respondents with longer subscription and those who are older have greater average customer satisfaction than respondents with shorter length of subscription and those who are younger. More educated respondents and males have lower average customer satisfaction than less educated respondents and females. As a result of these findings we will include these demographic variables as control variables in our main model discussed in the methodology section.

**Methodology**

We use an ordered logistic regression model to examine the ability of technical and functional service quality in explaining customer satisfaction. This model is selected since it takes into account different degrees of customer satisfaction and can provide answers as to which aspect of service quality has a greater impact on customer satisfaction. The basic format of the model is as follows:

\[ Q_{1a} = \alpha_0 + \alpha_1 Q_{1b} + \alpha_2 Q_{1c} + \alpha_3 Q_{1d} + \alpha_4 Q_2 + \text{Controls} + e \]  

(Equation 1)

where \( Q_{1a} \) refers to overall customer satisfaction, \( Q_{1b} \) and \( Q_{1c} \) refer to our technical service quality variables, and \( Q_{1d} \) and \( Q_2 \) refer to our functional service quality variables. We estimate the above regression model using three methodologies to take into account the positive bias\(^2\) in customer satisfaction that comes from respondents who participate more than once across the seven surveys. The first regression includes all respondents and the second one only includes respondents who participate once across the seven surveys. The first and second regression is estimated using pooled regression methodology to take into account different market conditions across the seven surveys. The third regression includes respondents who respond more than once and this is estimated using panel regression with survey period fixed effect. Positive bias is present in our sample if we draw different conclusions from the three regressions. We include the previously discussed demographic variables as controls when estimating the regressions.

**Results**

Table 3 presents the results of estimating the model. The second, fourth and sixth columns of Table 3 present the estimated coefficients for the first, second and third regression methodology, respectively. We also provide z-statistics in bracket. The second column results support our prediction that both technical and functional service quality contribute positively to customer satisfaction. Reliability (\( Q_{1b} \)), Financial Knowledge (\( Q_{1c} \)) and Service Experience (\( Q_{1d} \)) are highly significant and positively related to customer satisfaction while Physical Visit (\( Q_2 \)) is insignificant. The insignificance of Physical Visit can be attributed to an overlap that this measure has with Service Experience or this variable is not sufficient to capture the degree of care that planners provide to clients, which was documented as one quality that could satisfy clients in Australia (Irving et al. 2011). Supporting the former explanation, further analysis using a stepwise regression approach reveals that Physical Visit loses its significance in explaining customer satisfaction when Service Experience is added into the regression (results available upon request).
### TABLE 3: Regressions results

<table>
<thead>
<tr>
<th></th>
<th>Pooled regression with all sample</th>
<th>Pooled regression with unique sample</th>
<th>Panel regression with multiple responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regression results (2)</td>
<td>Marginal effects (3)</td>
<td>Regression results (4)</td>
</tr>
<tr>
<td>Q1_b</td>
<td>1.0984 (14.30)a</td>
<td>0.1206 (14.94)a</td>
<td>1.0738 (11.59)a</td>
</tr>
<tr>
<td>Q1_c</td>
<td>0.5447 (17.35)a</td>
<td>0.0598 (10.11)a</td>
<td>0.5427 (9.71)a</td>
</tr>
<tr>
<td>Q1_d</td>
<td>1.0635 (47.31)a</td>
<td>0.1167 (16.79)a</td>
<td>0.9815 (14.12)a</td>
</tr>
<tr>
<td>Q2</td>
<td>0.0273 (0.85)</td>
<td>0.0029 (0.96)</td>
<td>0.0109 (0.40)</td>
</tr>
<tr>
<td>Gender</td>
<td>-0.0226 (-0.31)</td>
<td>-0.0711 (-0.72)</td>
<td>-0.0109 (-0.06)</td>
</tr>
<tr>
<td>Education</td>
<td>-0.0925 (-2.98)a</td>
<td>-0.072 (-1.81)c</td>
<td>-0.0109 (-0.06)</td>
</tr>
<tr>
<td>Length of subscription</td>
<td>0.0226 (0.91)</td>
<td>0.0003 (0.01)</td>
<td>0.0003 (0.01)</td>
</tr>
<tr>
<td>Age</td>
<td>0.0032 (0.06)</td>
<td>0.0222 (0.33)</td>
<td>0.0003 (0.01)</td>
</tr>
<tr>
<td>Pseudo $R^2$</td>
<td>0.4901</td>
<td>0.4745</td>
<td>0.5129</td>
</tr>
<tr>
<td>N</td>
<td>2,830</td>
<td>1,479</td>
<td>1,351</td>
</tr>
</tbody>
</table>

Note: Table 3 presents the results of estimating Equation 1. The second, fourth and sixth columns present the estimated coefficients of equation 1. The results in Columns 2 and 4 are from pooled regressions that include all respondents and respondents who respond once across the surveys, respectively. The regression results in the sixth column include respondents with multiple responses across our surveys and are estimated using panel data regression methodology with the survey period fixed-effect. Marginal effect columns refer to the results of calculating the marginal contribution of each independent variable when a planner wants to receive a high score of customer satisfaction (i.e. customers provide a score of 10 in the customer satisfaction question) while holding other variables at their respective mean values. We present z-statistics in brackets and use robust standard errors. a, b and c indicate significance at the 1%, 5% and 10% level, respectively.

In terms of the control variables, only the level of education is significant and negative. This finding confirms our prediction that the level of education affects customer satisfaction. The negative relationship can be explained as more educated customers would have higher expectations of their planners and therefore an increased likelihood of dissatisfaction.

The estimated regression coefficients of the first regression are qualitatively similar to the estimated coefficients in the second and third regressions. The pseudo-$R^2$ suggests that the third regression has the highest ‘goodness of fit’ while the second regression has the lowest. These findings suggest that positive bias is present in our sample but the bias does not significantly change the conclusions drawn. Given the similarities across the regression methodologies, further discussion of the results will be based on the first regression.

Column three of Table 3 presents the calculation of the marginal effect of one independent variable to achieve high customer satisfaction scores (i.e. a score of 10 in the customer satisfaction question), while holding other variables at their respective mean values. Across the four variables of interest, Reliability ($Q1_{b}$) makes the greatest contribution to customer satisfaction, followed by Service Experience ($Q1_{d}$) and Financial Knowledge ($Q1_{c}$). A one unit increase in Reliability contributes to a 12 per cent rise in the probability of having a satisfied customer, while a one unit increase in Service Experience would increase the probability of satisfying customer by 11.7 per cent. This finding suggests that Reliability is as important as Service Experience in driving customer satisfaction and that Financial Knowledge has the least contribution to customer satisfaction.
A one unit increase in Reliability contributes to a 12 per cent rise in the probability of having a satisfied customer, while a one unit increase in Service Experience would increase the probability of satisfying customer by 11.7 per cent. This finding suggests that Reliability is as important as Service Experience in driving customer satisfaction and that Financial Knowledge has the least contribution to customer satisfaction.

To examine the relative importance of technical and functional service quality on customer satisfaction, we calculate the joint marginal effect of delivering the highest quality of technical service (Reliability and Financial Knowledge) and functional service (Service Experience and Physical Visit) on the probability of achieving full customer satisfaction. We find that perfect scores in Reliability and Financial Knowledge contribute to a 26 per cent increase in the probability of achieving full customer satisfaction. On the other hand, having perfect scores in Service Experience and high frequency of Physical Visit increase the probability of achieving full customer satisfaction by only 16 per cent. These findings clearly suggest that technical service quality is more important than functional service quality in the creation of customer satisfaction and this result aligns itself well with the findings of Lassar et al. (2000) and Newman (2001).

Conclusion
Using longitudinal survey data we examine the relative importance of technical service quality and functional service quality in creating customer satisfaction. We find that both technical and functional service quality have a positive impact on customer satisfaction. We also find that technical service quality has a greater impact on customer satisfaction than functional service quality. This finding is in line with previous literature in financial services industry. Lassar et al. (2000) and Newman (2001) find that technical service quality is more important than the functional component. The implication of our results for financial planners is that improving technical service quality would be a more efficient way than honing ‘soft skills’ to create greater customer satisfaction. In addition, in the situation where a high level of technical service has been delivered, planners can still enhance customer satisfaction through improving their functional service quality.

Our results are robust to various sets of respondent demographic factors, to variations in the data across time in the surveys, and to the positive bias that comes from respondents who participated in the survey more than once. However, a caveat exists in interpreting and generalising our results because of the less direct and simple measures of technical and functional service quality used in our analysis. More direct and complete measures of technical and functional service quality similar to Lassar et al. (2000) and Newman (2001) would provide results that are more robust and could be generalised. Also, this study does not include dissatisfied customers who may have stopped receiving professional financial advice, or those who have never engaged a financial planner. Nor does our sample include time periods when the Australian financial and property markets have not performed well. Future study to investigate the conditions in which clients report dissatisfaction would benefit planners as well as regulators and it would be interesting to investigate if the relative importance of technical and functional service quality on customer satisfaction changes during a sustained market downturn.

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Notes
1. The mean differences across the demographic variables are significant at 1 per cent using the Kruskal-Wallis test.

2. Respondents who participate more than once in our surveys would be likely to have high levels of customer satisfaction and also likely to have a clear preference for either technical or functional service quality, which has been fulfilled by the planner.

References


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