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Harmony amidst dissonance: unveiling the power of open communication in resolving demarketing dilemmas

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ABSTRACT

Cognitive dissonance (CD) is a well-established concept in marketing literature, particularly within consumer behavior contexts. This study extends its application to the underexplored domain of demarketing in the banking sector, specifically addressing the challenges banks face in managing loan rejections. Unlike traditional studies on post-purchase dissonance or general dissatisfaction, this research examines how deliberate, firm-initiated actions – such as demarketing – create CD while requiring strategies to retain customer loyalty. The study investigates the role of communication openness (CO) as a moderator in the relationship between CD, satisfaction and loyalty. By highlighting how open communication mitigates the adverse effects of demarketing decisions, the research provides a fresh perspective on preserving customer relationships in adverse scenarios. Methodologically, the study employs a vignette-based approach combined with structural equation modeling (SEM), analyzing 505 responses, offering a robust framework for understanding customer reactions. This methodological design allows for rigorous statistical validation of complex relationships. The findings contribute to the literature on demarketing and relationship marketing, offering actionable strategies for banks to navigate the delicate balance of rejecting customer requests while fostering long-term loyalty.

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1. Introduction

Banks, a key component of any country's economy, play a vital role in providing essential financial services to individuals and businesses, from basic banking accounts to complex lending products (Devlin & Gerrard, 2004). However, the banking landscape is fraught with challenges, particularly in managing the delicate balance between meeting customer needs and mitigating risk. The fallout from the 2008 global financial crisis, evidence of the perils of unchecked lending practices, forced financial institutions worldwide to reassess their lending practices and risk management frameworks (Naicker & Kabir, 2013). The aftermath of the crisis underscored the critical importance of demarketing strategies in the banking sector, highlighting them as a crucial tool for banks seeking to manage excess or undesirable demand while maintaining profitability and regulatory compliance. Demarketing, coined by Kotler and Levy (1971), refers to the deliberate efforts by companies to diminish, shape and manage demand for their products. Within the banking landscape, demarketing manifests in various forms, from selective credit approvals to exclusively tailored product offerings accessible to only a select few. While these measures are essential for safeguarding against risk and regulatory scrutiny, they present a dilemma for banks in preserving customer loyalty and trust (Chaudhry et al., 2019). This is especially critical in the South African banking context which has a very high rate of loan declines. As per the Financial Sector Conduct Authority and Genesis Analytics (2022), over half of the loan applications received by formal lenders in South Africa are rejected. Their findings reveal that in 2019, 59% of applications were declined while 41% were approved.

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In 2020, amid the Covid pandemic, the rejection rate rose to 63%, with only 37% of applications being approved. Despite this, banks still desire to maintain relationships with their customers for other products.

Traditionally, customer loyalty in the banking industry was synonymous with inertia, with customers often sticking with their banks out of habit rather than genuine affinity (Beena & Khosla, 2015). However, the advent of new financial players and heightened competition in the sector has shattered this status quo, ushering in an era where customer loyalty needs to be earned rather than assumed (Mainardes et al., 2020). In response to this evolving landscape, banks have been compelled to reevaluate their approach to customer engagement and relationship management. This is where open communication, a cornerstone of effective relationship management in the modern banking era, may be useful. Banks need to consider whether by fostering transparent and empathetic communication channels, they can navigate demarketing dilemmas more tactfully, addressing customer concerns and preserving satisfaction and loyalty even in the face of difficult decisions.

While existing research has explored customer reactions to loan declines and associated disappointment (Bhatnagar et al., 2019; Cowling et al., 2022; Jennett et al., 2012), these studies primarily focus on broader consumer dissatisfaction or post-purchase contexts. There is a notable gap in understanding how cognitive dissonance (CD) uniquely manifests in demarketing scenarios, such as loan rejections – contexts where firms intentionally decline customer requests. Unlike general dissatisfaction, demarketing-induced dissonance arises from deliberate, firm-initiated actions that create a tension between profitability objectives and the need to maintain customer loyalty. Moreover, while communication strategies have been widely studied in mitigating dissatisfaction, the specific role of communication openness (CO) as a mediator and moderator in demarketing contexts remains underexplored. This study addresses the interplay between CD, CO and customer outcomes, offering empirical insights into how open communication can mitigate the psychological and relational fallout from demarketing decisions.

This gap is particularly relevant in the South African banking sector, where loan rejection rates are consistently high – over 60% of applications are declined in certain years (FSCA&GenesisAnalytics, 2022). Despite these challenges, banks aim to retain rejected customers for other products, highlighting the critical need for effective strategies to preserve satisfaction and loyalty. By integrating CD theory with the concept of CO, this research provides actionable strategies for banks to manage customer relationships in high-rejection-rate environments.

Through the lens of CD theory, this paper explores the transformative potential of open communication in resolving demarketing dilemmas. It sheds light on how banks can navigate the delicate balance between risk management and relationship building, providing best practices and actionable strategies to enhance satisfaction and loyalty in adverse scenarios.

2. Literature review

2.1. Demarketing

Demarketing in the financial services industry employs traditional marketing elements like product, price, place and promotion, alongside segmentation, targeting and positioning, to reduce demand rather than stimulate it (Kotler, 2011; Lawther et al., 1997). Selective demarketing is a commonly used strategy, involving reduced marketing efforts or withdrawal of specific products or services targeted at certain market segments (Kotler & Levy, 1971). In South Africa, demarketing is recognized as a crucial strategy in the financial services sector, particularly concerning credit products, where customers' financial health is a concern (Roberts et al., 2021). Farquhar and Robson (2017) contend that selective demarketing is indispensable for firms as it enables them to disengage from customers who do not align with the optimal utilization of the firm's resources. While credit may offer short-term relief, it can lead to long-term financial harm if not managed responsibly. Thus financial institutions have a duty to lend responsibly to safeguard both their interests and those of their customers (Richards et al., 2008).

The dual nature of demarketing in the financial services sector highlights its potential for both positive and negative outcomes. When executed effectively, the demarketing of credit products can play a significant role in customer relationship management and enhancing overall customer satisfaction. By dissuading customers from adopting products that may pose risks to their financial well-being, financial institutions can establish trust and showcase their dedication to the financial welfare of their clientele. However, it is important to note that customers often react unfavorably to demarketing efforts, regardless of the underlying rationale (Lepthien et al., 2017).

2.2. Cognitive dissonance

The denial of a credit product to a customer is a significant adverse event that may evoke disappointment and potentially trigger CD, a psychological concept introduced by Festinger (1957). CD arises when individuals hold conflicting beliefs, leading to inner turmoil, which they may resolve through rationalization or avoidance (Festinger, 1957). CD theory holds significant importance in social psychology, offering insights into the general pattern of human psyche and the formation of reality (Vaidis & Bran, 2019). Moreover, it has emerged as a crucial theory in marketing, leading to a substantial body of literature exploring CD in various marketing contexts, including consumer behavior (Brijball, 2001; Kim, 2011; Soutar & Sweeney, 2003; Sweeney et al., 2000; Tanford & Montgomery, 2015). CD theory has prompted innovation in comprehending the motivation behind attitudes, behaviors and preferences exhibited by humans (Cooper, 2019). It has emerged as a valuable tool for marketers, facilitating an understanding of how consumers navigate decision-making processes and rationalize their choices amidst conflicting information. It has also proven instrumental in predicting consumer behavior by illuminating how individuals are likely to act when their beliefs, attitudes, and decisions are at odds. For example, Harmon-Jones and Mills (2019) argue that as dissonance is psychologically uncomfortable, it results in the person being motivated to take actions to reduce the dissonance and thus return to a state of consonance. According to Wilkins et al. (2016), post-purchase dissonance in consumers can adversely affect their relationships with the company. Consequently, a grasp of CD can inform the design of effective interventions, messages and strategies to minimize resistance from consumers.

2.3. Communication openness

Communication encompasses the timely and meaningful sharing of information, whether formal or informal, verbal, non-verbal, visual or written (Anderson & Narus, 1990). It plays a pivotal role in establishing and managing long-term marketing relationships (Arnott et al., 2007; Madden & Perry, 2003; Sharma & Patterson, 1999). Open communication has been described by Arnott et al. (2007) as the extent to which firms communicate frankly, sincerely, and substantively with their customers. Open communication, characterized by sincerity and substantive engagement, fosters trust, supportiveness, honesty and active listening (Rogers, 1987). Parties engaged in open communication can freely express themselves without fear of repercussion (Redding, 1972). Therefore, open communication has the potential to elevate satisfaction levels, which in turn, may bolster trust, commitment and ultimately cultivate loyalty towards the bank.

In contrast, closed communication involves only one active communicator, leading to one-way information flow (Petre, 1970). An empirical study by Madden and Perry (2003) underscored the importance of communication in the relationship between financial institutions and their customers. Qualitative data collected from 34 home loan customers of an Australian building society highlighted that proactive, personalized, relevant, high-quality and regular communication from financial institutions helped to maintain customer relationships and that poor communication was a cause of dissatisfaction among customers.

2.4. Satisfaction

Satisfaction can be considered to be the outcome of a consumer purchasing and using a product and comparing the rewards and the costs in relation to what was anticipated (Churchill & Surprenant, 1982). Firms in the service industry, such as retail banks, have for a long time been using customer service indicators to gauge how well they are meeting customer needs and requirements (Dabholkar, 1995). When customers are not satisfied, they are likely to not buy a product again, and even though they may not complain, they are likely to resort to switch to other brands or retailers (Salzberger & Koller, 2010). Organizations have long identified that offering services and keeping customers satisfied is key to remaining in business, and thus many companies measure customer satisfaction to determine how well they are meeting the needs of their customers (Dabholkar, 1995).

There has been a debate on whether satisfaction should be considered transaction or incident specific, or an overall evaluation of the relationship (Beerli et al., 2004; Bodet, 2008; Jones & Suh, 2000). On one hand, satisfaction can be the evaluation of a specific encounter, such as in this study, the approval or decline of the loan. Other the other hand, satisfaction can be argued to be an evaluation of the overall service of the relationship with the company, taking into account multiple interactions, overall performance and the consistency of the service provider over time. Although there are benefits to both approaches, this study will consider overall satisfaction, as banking is inherently relationship oriented, with customers holding several products and engaging in various transactions with their banks concurrently.

2.5. Loyalty

Loyalty in the context of consumer behavior has been defined by various scholars. Jacoby and Chestnut (1978) describe it as the evaluative decision-making process where a customer consistently prefers a particular brand over time when faced with similar alternatives. Oliver (1999) adds to this definition, emphasizing a deep commitment to repeatedly purchasing a preferred product or service, even when alternatives are available. In the banking sector, Zephaniah et al. (2020) define loyalty as customers continuously patronizing a preferred bank despite efforts by other banks to encourage switching. Beerli et al. (2004) succinctly define loyalty as repetitive purchasing. These definitions underscore the importance of consistency and preference in loyalty. Ultimately, loyal customers contribute significantly to a company's success by making repeated purchases, maintaining a positive attitude toward the company, and often recommending it to others (Levy & Hino, 2016). Research suggests that a company's survival hinges on its ability to carefully select and retain its customers (Farquhar & Robson, 2017).

3. Hypotheses development and the conceptual framework

3.1. Cognitive dissonance and satisfaction

The existence of a relationship between CD and satisfaction is supported by various studies. Researchers like Sweeney et al. (2000), Harmon-Jones and Mills (2019), Yağcı and Özbozkurt (2022), Clark and Das (2009), Koller and Salzberger (2007), Hassan et al. (2016) and Graff et al. (2012) have highlighted the negative impact of CD on satisfaction. Salzberger and Koller (2010) suggest that CD directly influences satisfaction, affecting the overall mental state of the customer. Studies by Sabokro et al. (2019) and De Vos and Singleton (2020) further emphasize the role of CD in shaping satisfaction levels, particularly in the context of unmet expectations and decision-making processes. Additionally, Wilkins et al. (2016) argue that consumer post-purchase dissonance can strain relationships with firms, highlighting the importance of addressing customer concerns to minimize dissatisfaction. Overall, these findings underscore the negative association between CD and satisfaction, providing support for the below hypothesized relationship.

H1: There is a significant negative relationship between CD and satisfaction in demarketing contexts.

3.2. Cognitive dissonance and communication openness

Festinger (1957) proposed that providing detailed and specific communication regarding product usage can effectively mitigate CD. Similarly, Hunt (1970) found that post-purchase communication, such as personalized letters to customers, can alleviate dissonance and foster favorable attitudes. Wilkins et al. (2018) emphasized the importance of upfront expectation management and consistent communication in reducing CD among students. In the healthcare context, Sun et al. (2000) found that inadequate communication regarding the causes of problems and waiting times resulted in patient dissatisfaction. Andaleeb (2001) and Ashfaq et al. (2020) also observed the significant impact of communication on satisfaction, particularly within the healthcare sector. Based on this, the below relationship can be hypothesized.

H2: There is a significant negative relationship between CO and CD in demarketing contexts.

3.3. Cognitive dissonance, communication openness and satisfaction

CO is a pivotal concept in organizational communication, particularly for managing negative and non-routine communication (Rogers, 1987). Previous research suggests that the level of CO within an organization can influence the relationship between CD and satisfaction. Festinger (1957) for example, proposed that marketers can alleviate dissonance by providing detailed and specific information on product usage. Hunt (1970) investigated post-purchase communication's effectiveness in reducing dissonance, finding that letters to customers decreased dissonance, improved attitudes, and increased the likelihood of future purchases. More recently, Sharifi and Esfidani (2014) discovered that while communication did not directly affect CD, it played a vital role in refining strategies to enhance customer satisfaction and loyalty. Understanding the role of CO in reducing dissonance thus increasing satisfaction in the banking sector despite demarketing efforts is crucial. Relationship marketing literature emphasizes the role of open and transparent communication in reducing negative customer experiences by fostering trust and understanding (Madden & Perry, 2003; Rogers, 1987). Building on prior research such as Andaleeb (2001) and Ashfaq et al. (2020), this study seeks to find out whether CO can buffer the adverse effects of CD, particularly in demarketing scenarios where deliberate customer rejection amplifies dissatisfaction. Thus, the below hypothesis is proposed.

H3: CO moderates the relationship between CD and satisfaction in demarketing contexts.

3.4. Communication openness and satisfaction

Research by Andaleeb (2001) and Ashfaq et al. (2020) highlights the significant impact of CO on satisfaction. Focusing on the healthcare sector, they emphasize the importance of promoting CO between employees and patients to enhance satisfaction by sharing organizational policies and procedures. Encouraging communication between patients and healthcare providers is crucial, as patients are not only concerned about their well-being but also interested in understanding their conditions, results and treatment options Andaleeb (2001). Similarly, Ashfaq et al. (2020) suggest that fostering CO can lead to higher levels of satisfaction among individuals. Thus, the below relationship is proposed.

H4: There is a significant positive relationship between CO and satisfaction in demarketing contexts.

3.5. Communication openness and loyalty

Scholars and experts in communication widely concur that effective bilateral communication aims to foster mutual understanding without distortion in message transmission and reception (Mohr & Bitner, 1991). Accordingly, for companies to manage customer relationships effectively and preserve their reputation, active engagement with customers and consideration of their feedback are deemed essential (Fensel et al., 2014). Ennew et al. (2011) underscore the critical role of communication in financial service institutions' efforts to nurture customer relationships. They advocate for maintaining open channels of communication, which involve providing information regarding product and organizational changes, as well as updates on intricate transactions or complaint resolutions. Recent research by Sarmawa and Sugianingrat (2022) further supported the link between open communication, trust and loyalty. Their findings emphasized that when employees engage in open communication with customers, it cultivates trust and can lead to higher levels of loyalty. Thus, the below relationship can be hypothesized for this study.

H5: There is a significant positive relationship between CO and loyalty in demarketing contexts.

3.6. Satisfaction and loyalty

Numerous studies have delved into the connection between satisfaction and loyalty (Bowen & Chen, 2001; Hoang et al., 2023; Hom, 2000; Oliver, 1999; Tiwari, 2022). However, some scholars have argued that this relationship is often nuanced. While others found satisfaction to be a key determinant of loyalty (Beerli et al., 2004; Lewis & Soureli, 2006; Paulose & Shakeel, 2022), scholars such as Bowen and Chen (2001) argue that the impact of satisfaction on loyalty is not straightforward, suggesting that high levels of satisfaction are necessary to drive any significant amount of loyalty. Specifically in the banking industry, Reydet and Carsana (2017) propose that positive experiences with banks can cultivate loyalty. Also in the banking industry, a study carried out by Makudza (2021) on the impact of customer experience on customer loyalty found that the quality of service interactions between bank customers and frontline employees, such as tellers, personal bankers and customer service officials, influences customer loyalty and that proper management of customers can lead to increased loyalty.

These varied viewpoints warrant further examination. Following from this, this study aims to investigate the relationship between satisfaction and loyalty in the context of demarketing in banking, considering both behavioral and attitudinal facets of loyalty as identified by Bowen and Chen (2001). Consequently, the below hypothesis is proposed.

H6: There is a significant positive relationship between satisfaction and loyalty in demarketing contexts.

3.7. Conceptual model for the study

Based on the empirical literature discussed above, it is hypothesized that CO influences CD negatively, satisfaction and loyalty positively, and that it moderates the relationship between CD and satisfaction. While the relationships proposed in these hypotheses have been extensively studied in generic consumer behavior contexts, this study advances this body of knowledge by examining the dynamics of CD in the unique context of demarketing, where firms deliberately deny customers access to certain products or services, such as loans. A conceptual framework as depicted in Figure 1 has been proposed to guide the study.

4. Materials and methods

4.1. Study design

In this study, participants were presented with a vignette followed by a survey. Vignettes, described by Alexander and Becker (1978) as concise descriptions of situations outlining factors crucial for decision-making were utilized to collect data. Vignettes provide standardized information to participants, eliminating the need for them to generate information themselves. Eckerd et al. (2021) suggest that vignettes are suitable for sensitive topics and contexts where different scenarios can be realistically depicted and manipulated. Given the sensitivity of the topic under investigation, collecting real-life data would have been challenging due to participants' reluctance to disclose personal financial information. Therefore, employing a hypothetical scenario through vignettes was deemed more suitable for obtaining genuine feedback on participants' reactions. The vignettes that were used are presented in Appendix A.

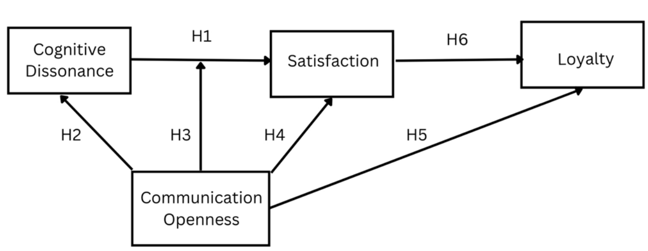

Figure 1. Conceptual model for this study (*Source:* Researcher's Own Construct).

4.2. Sampling and data collection

The initial stage of sampling involves defining the relevant population, typically associated with individuals residing in a specific region or country (Taherdoost, 2016). This study focused on South Africa, targeting adults aged 18 and above eligible for consumer credit facilities under the National Credit Act (No. 34 of 2005). Data collection for this study occurred at the micro-level, with individual adults serving as the unit of observation. To determine the sample size, the Raosoft calculator was utilized. It recommended 395 participants based on a 5% margin of error, 95% confidence level and 50% response distribution (McCrum-Gardner, 2010). Convenience sampling, a non-probability method, was employed, focusing on participants meeting specific criteria and easily accessible (Etikan et al., 2016). Participation was open to individuals from all provinces, facilitated through electronic circulation to reach a broad audience, leveraging South Africa's substantial internet user base (Statista, 2021; Stats SA, 2023).

4.3. Data

Before data collection commenced, the study received ethics approval from the University of the Witwatersrand Ethics Committee (Non-Medical) under Protocol Number: R22/07/15. Informed consent was obtained from all participants in the study in writing. On accessing the online survey, participants received detailed information about the study's purpose, completion time and voluntary nature. They were assured of the option to withdraw without consequences at any point and provided with contact information for the researcher, supervisor and university's Ethics Committee, and were informed that completion of the questionnaire signaled consent. If they consented, they clicked on a button and proceeded to the questionnaire.

Maintaining the confidentiality and anonymity of research participants is a paramount concern in management research, with scholars facing increasing pressure to uphold these principles (Bell & Bryman, 2007). In this study, stringent measures were implemented to safeguard the privacy of participants. Individual responses were not identifiable, and data analysis was conducted at an aggregated level, ensuring that no personal information could be traced back to any specific participant, thus preserving their anonymity. Given the nature of the topic, which delved into personal finances, this approach was particularly pertinent. Moreover, comprehensive measures were taken to ensure data security and confidentiality throughout the research process. The collected data was securely stored on password-protected devices, with access restricted solely to the researcher to prevent any unauthorized use, access, or disclosure. Adhering to institutional guidelines and data protection regulations, the collected data was retained and stored securely. Additionally, the data remain available for audit purposes, facilitating transparency and accountability in the research process. The data is available from the corresponding author upon reasonable request.

The study collaborated with Cint, a global software company specializing in digital insights and research solutions. Cint provides panel research services to both commercial and academic sectors, with a vast membership base spanning millions of individuals worldwide. Participants were offered incentives valued up to R 21.87 in airtime or other rewards as a gesture of gratitude for completing the survey. A research panel comprises individuals who have voluntarily agreed to partake in research endeavors or surveys continuously. These participants are typically recruited through various channels, including opt-in invitations, online registrations, or partnerships with market research entities. While the internet has long been utilized for participant recruitment in research, the emergence of research panels represents a recent advancement in terms of convenience and simplicity (Chandler et al., 2019). Baker et al. (2013) noted the remarkable proliferation of survey panels as a data collection method over the past decade.

Participation was open to residents from all provinces, provided they met the minimum criteria. The study employed convenience sampling, gathering responses from eligible members of the target population who were readily accessible. To maximize respondent involvement, the survey was distributed electronically, a method previously employed successfully by researchers like Hasyim (2019).

Prior to deployment, the questionnaire underwent a pilot phase to assess usability, validity, reliability and other potential concerns. Importantly, the vignettes were tested for their clarity and relatability. Three pilot studies were conducted in total to address any issues with the study design and measurement tool. Following the completion of the pilot studies and necessary adjustments, the survey was launched. A total of 593 responses were collected during the data collection phase of the main study. These responses underwent screening to eliminate incomplete submissions and respondents who completed the survey hastily. Following this, 505 responses were utilized for the final analysis.

4.4. Measurement instrument development

This study collected primary data using a questionnaire, which involved gathering information directly for the research project. The questionnaire was administered via QualtricsXM, an online survey management tool that supports data collection through surveys, feedback, and polls, offering multiple distribution options.

The questionnaire employed validated Likert scales to gauge respondents' agreement or disagreement with each item, utilizing a five-point symmetric scale, which ensured balanced responses (Joshi et al., 2015). CD was assessed using scales adapted from Sweeney et al. (2000), following psychometric testing for reliability and validity (α= 0.80–0.97; average variance extracted (AVE) ≥ .52), and excluding extreme items to mitigate potential arousal of dissonance during data collection. CO was measured using a scale by Auh et al. (2007), validated in studies on financial advisors and physicians, with demonstrated reliability and validity (α= 0.87–0.91; AVE ≥ 0.64). Satisfaction was gauged using a scale developed by Adjei et al. (2010), adapted for this study and tested for reliability and validity (α = 0.97; AVE = 0.90). Loyalty was assessed using two scales for attitudinal and behavioral loyalty, both adapted for specificity to this study and validated for reliability and validity. One was from Quach et al. (2016) (α=0.797–0.917; AVE = 0.576–0.779), and another from Gecti and Zengin (2013), (α=0.83–0.88; AVE = 0.66–0.71). All scales used in the study are presented in Appendix B.

On completion of data collection, the data was exported into IBM SPSS version 27.0.0 (IBM SPSS Statistics, Armonk, NY) for descriptive analysis and later into IBM SPSS AMOS version 27.0.0 (IBM SPSS Statistics, Armonk, NY) for inferential analysis. The initial step involved cleaning and editing the data to ensure its quality and suitability for analysis, in accordance with the guidelines by Van den Broeck et al. (2005). This process included removing unnecessary identifiers from the dataset, such as response IDs and dates, to streamline the data. The data were then coded, converting categorical responses into numeric values for statistical analysis. Reverse coding was applied to items that were worded oppositely to the rest of the scale. Additionally, missing values were checked, and it was found that there were minimal missing responses due to the survey design, which required respondents to answer each question before proceeding to the next. This data cleaning process resulted in a refined dataset of 505 responses ready for screening and analysis.

5. Results

Descriptive statistics were computed using SPSS version 23 for data analysis, while AMOS version 23 was utilized for model fit assessment, path modeling and moderation analysis.

5.1. Descriptive statistics

Among respondents, 62.6% identified as female and 37.4% as male. Although the higher representation of females is not consistent with South Africa's population characteristics, this did not affect the results as researchers such as Bolia et al. (2016), Reiger (2000) and Soutar and Sweeney (2003) found no difference in CD as experienced by different genders. The age distribution showed that the highest participation was from the 26–35 age group (47.9%), followed by 36–45 (28.3%) and 46–55 (16.2%), with those over 55 and 18–25 representing smaller portions at 4.8% and 2.8%, respectively. Regarding bank affiliation, the majority were FNB customers (37.4%), followed by Capitec (29.1%), Standard Bank (11.7%), Absa (10.5%), Nedbank (9.5%), and 1.8% with other banks. Most respondents reported a tenure of over 4 years with their main bank, with 26.3% for 4–6 years, 17.8% for 7–9 years, 16.0% for 10–12 years and 24.6% for over 12 years. Half of the respondents had applied for a home loan before, with 31.5% experiencing a decline. Among those declined, 84.3% remained with their main bank, while 15.7% switched banks.

Additionally, 35.8% agreed with the bank's decision to decline their loan, and of those declined 37.1% appealed the decision.

5.2. Measurement instrument assessment

Table 1 presents the results from reliability and validity analysis of the measurement instrument.

The assessment of the measurement instrument involved calculating means and standard deviations for both constructs and individual survey items. Construct means ranged from 2.969 to 3.732, while item means varied from 2.22 to 4.04. Internal consistency, assessed using Cronbach's alpha, demonstrated values between 0.822 and 0.951, meeting the criterion of 0.70 for scale reliability (Cronbach, 1951). Additionally, composite reliability (CR) values surpassed the recommended threshold of 0.70 (Ab Hamid et al., 2017). Convergent validity, evaluated through AVE, indicated that all constructs, except for CD , met or exceeded the threshold of 0.50 (Ab Hamid et al., 2017; Anderson & Gerbing, 1988). However, CD still exhibited convergent validity due to its satisfactory CR. Researchers frequently rely on CR as a robust measure of internal consistency when AVE values are slightly below the 0.50 threshold. Fornell and Larcker (1981), note that a construct can still demonstrate convergent validity if its CR is above the acceptable threshold of 0.70, even when AVE is marginally lower. These findings align with established criteria for internal consistency and validity proposed by various researchers (Floyd & Widaman, 1995; Fornell & Larcker, 1981; Hair et al., 1998; Mohan et al., 2013).

A correlation matrix generated from SPSS was utilized to examine the relationships between constructs, as depicted in Table 2.

High correlations between constructs indicate a relationship, while low correlations suggest theoretical differences (Nunally & Bernstein, 1978). Most constructs exhibited positive correlations, indicating that an increase in one variable corresponds to an increase in another. Negative correlations indicated an inverse relationship. The strength of correlations was measured by absolute values, with higher values implying stronger relationships and lower values indicating weaker ones. According to Schroeder et al. (1990), values exceeding 0.850 may suggest multicollinearity. Although one instance

Table 1. Factor loading, mean, standard deviation, item to total Cronbach alpha, CR, AVE and number of study items (*Source:* This study).

	Item	Factor loading	Mean		Standard deviation		Item to total	Cronbach alpha	CR	AVE	Initial no. of items and (final)
CD	CD2	0.643	3.030	3.328	1.414	1.343	0.549	0.843	0.833	0.434	12(8)
	CD3	0.710	3.610		1.357		0.577				
	CD4	0.712	3.940		1.232		0.537				
	CD5	0.708	4.040		1.188		0.528				
	CD6	0.642	3.310		1.369		0.581				
	CD7	0.733	2.690		1.351		0.623				
	CD11	0.733	3.750		1.242		0.479				
	CD12	0.627	3.640		1.247		0.460				
CO	CO1	0.719	3.770	3.732	1.207	1.040	0.733	0.894	0.849	0.532	5(5)
	CO2	0.804	3.860		1.155		0.807				
	CO3	0.807	3.720		1.231		0.819				
	CO4	0.723	3.770		1.189		0.757				
	CO5	0.569	3.540		1.410		0.616				
SAT	SAT1	0.722	3.220	3.153	1.282	1.199	0.809	0.951	0.951	0.795	5(5)
	SAT2	0.782	3.170		1.337		0.863				
	SAT3	0.792	3.190		1.279		0.866				
	SAT4	0.807	3.040		1.327		0.884				
	SAT5	0.815	3.150		1.332		0.896				
BL	BL1	0.590	2.640	2.969	1.332	1.035	0.661	0.886	0.890	0.619	6(6)
	BL2	0.465	2.220		1.276		0.523				
	BL3	0.716	2.890		1.323		0.801				
	BL4	0.656	3.340		1.306		0.727				
	BL5	0.699	3.390		1.248		0.751				
	BL6	0.748	3.330		1.300		0.738				
AL	AL1	0.780	3.500	3.257	1.231	0.950	0.829	0.822	0.948	0.787	6(5)
	AL2	0.731	2.920		1.354		0.777				
	AL3	0.798	3.450		1.268		0.835				
	AL4	0.803	3.240		1.357		0.855				
	AL5	0.782	3.230		1.330		0.805				

in this study slightly exceeded this threshold (AL and BL), it was addressed by merging the two items into a higher-order construct measuring overall loyalty. Once the constructs were merged, all values were well below the recommended threshold of 0.850, demonstrating discriminant validity as shown in Table 3.

5.3. Structural equation modeling

Inferential analysis for this study utilized structural equation modeling (SEM) conducted on SPSS AMOS. SEM, as defined by Anderson and Gerbing (1988), is a robust statistical method that integrates factor analysis with regression or path models for data analysis. SEM was chosen as the analytical technique because it enables simultaneous evaluation of multiple relationships among latent constructs while accounting for measurement error. This approach aligns with the study's objective of examining both direct and indirect effects within a complex model. Additionally, SEM's capacity for testing mediation and moderation effects provides a robust framework to analyze the nuanced role of CO in the context of demarketing.

In conducting SEM analysis, the first step involves assessing model fit using various indices (Moss, 2009). Subsequently, attention shifts to examining the significance of specific paths. Post hoc modifications may be necessary to enhance model fit, typically involving the deletion of items with low factor loadings and utilizing modification indices (Lei & Wu, 2007). Such modifications are well accepted in literature and aim to align the model better with observed data. This systematic approach was followed, which led to a well-fitting model in this study.

Several fit indices were utilized. The normed Chi-square yielded a value of 2.771, indicating acceptable fit (Kline, 1998). GFI and AGFI were 0.863 and 0.838, respectively, meeting the threshold of 0.80 (Baumgartner & Homburg, 1996; Doll et al., 1994). CFI, TLI, and IFI values were 0.944, 0.938 and 0.944, respectively, approaching the recommended threshold of 0.95 for an excellent fit (Hu & Bentler, 1999; Moss, 2009). SRMR was 0.062, well under the 0.08 criterion, while RMSEA at 0.059 fell close to the 0.06 threshold (Hu & Bentler, 1999). Overall, the model exhibited acceptable fit based on these indices as summarized in Table 4.

5.4. Hypotheses testing and path modeling

Table 5 presents the results from the hypotheses testing.

The analysis indicates support for all direct hypotheses (H3 which tests a moderation relationship was tested separately). The results presented in Table 5 show that CD exhibits a negative relationship with CO ($\beta = -0.081$, $p = 0.005 < 0.05$), suggesting that higher levels of CO are associated with lower levels of CD. Additionally, CD negatively influences satisfaction (SAT) ($\beta = -0.582$, $p < 0.001$), indicating that higher CD results in lower SAT levels. Conversely, CO positively influences SAT ($\beta = 0.496$, $p < 0.001$), implying that higher CO leads to higher SAT levels. Furthermore, SAT strongly positively influences Loyalty (LOY) ($\beta = 0.634$, $p < 0.001$), indicating that higher SAT is associated with higher LOY. Lastly, CO also

Table 2. Inter-construct correlation matrix – first order constructs (*Source:* This study).

	SAT	BL	AL	CO	CD
SAT	1				
BL	0.577**	1			
AL	0.629**	0.868**	1		
CO	0.465**	0.363**	0.374**	1	
CD	−0.203**	−0.139**	−0.166**	−0.062	1

** Correlation is significant at the 0.01 level (2-tailed).

Table 3. Inter-construct correlation matrix – second order constructs (*Source:* This study).

	SAT	CO	CD	LOY
SAT	1			
CO	0.465**	1		
CD	−0.203**	−0.062	1	
LOY	0.628**	0.389**	−0.153**	1

Table 4. Model fit results from CFA analysis (*Source:* This study).

Standards for checking model fit	Model fit index	Acceptable threshold	Path analysis	Outcome
	Chi-Square	≤3	2.771	Acceptable
	CMIN/DF		1019/368	
Tests of absolute fit	GFI	≥0.800	0.863	Acceptable
	AGFI	≥0.800	0.838	Acceptable
	SRMR	≤0.080	0.062	Acceptable
	RMSEA	≤0.060	0.059	Acceptable
Tests of incremental fit	CFI	≥0.900	0.944	Acceptable
	TLI	≥0.900	0.938	Acceptable
	IFI	≥0.900	0.944	Acceptable

Table 5. Hypotheses testing results from the structural model (*Source:* This study).

				Estimate	S.E	C.R	*p*	Decision on hypothesis
H1	SAT	<—	CD.	−0.582	0.108	−5.405	***	Supported
H2	CD	<—	CO.	−0.081	0.029	−2.793	0.005	Supported
H4	SAT	<—	CO.	0.496	0.057	8.740	***	Supported
H5	LOY	<—	CO.	0.135	0.051	2.647	0.008	Supported
H6	LOY	<—	SAT.	0.634	0.047	13.406	***	Supported

***p < .001, denoting highly statistically significant results.

positively influences LOY ($\beta = 0.135$, $p = 0.008 < 0.05$), although with a weaker effect compared to other paths, suggesting that higher CO is related to higher levels of LOY, albeit to a lesser extent.

The study also explored the moderating effect of CO on the relationship between CD and SAT. The main effects and interaction effect coefficients were analyzed to detect moderation. A significant interaction term signaled the presence of moderation. The results are presented in Table 6.

Aligned with the hypotheses testing results presented above, this analysis confirms a significant negative association between SAT and CD, signifying that higher CD levels correspond to lower SAT levels. Additionally, SAT positively correlates with CO, indicating that higher CO levels are linked to increased SAT. However, no statistically significant relationship was found between SAT and the interaction variable ($p > 0.05$), indicating that CO does not notably influence the SAT-CD relationship. Consequently, the moderation hypothesis was rejected.

6. Discussion and managerial implications

The negative relationship observed between CD and CO underscores the importance of transparent communication channels in mitigating consumer doubts and uncertainties and in shaping consumer perceptions and behaviors. As higher levels of CO are associated with lower levels of CD, it indicates the potential for effective communication strategies to alleviate consumer concerns. This aligns with a study conducted by Levy and Hino (2016), who posited that by fostering dialogue and transparency, banks can navigate challenging seasons in the relationship with finesse, preserving trust even in the face of difficult decisions.

Furthermore, the negative impact of CD on satisfaction emphasizes the significance of addressing conflicting beliefs or attitudes through targeted communication efforts. Higher levels of CD result in lower satisfaction levels as highlighted by researchers such as Wilkins et al. (2018) and Mousavi et al. (2022). With the presence of dissonance having been confirmed, it underscores the importance of its proactive management in demarketing contexts.

Conversely, the positive relationship between CO and satisfaction highlights the role of open communication in enhancing customer satisfaction. Higher CO levels lead to higher satisfaction levels, indicating the value of building trust and credibility through open communication channels. Moreover, the strong positive influence of satisfaction on loyalty reaffirms the importance of prioritizing customer satisfaction as a key driver of loyalty, in alignment with previous research (Beerli et al., 2004; Lewis & Soureli, 2006; Paulose & Shakeel, 2022; Tiwari, 2022). As this relationship was found to hold in a demarketing context, it emphasizes the need for companies to prioritize customer satisfaction in demarketing strategies. Finally, as the study did not find a significant moderating effect of CO on the relationship between CD and satisfaction, further research is warranted to explore the nuances of this relationship in demarketing contexts.

Table 6. Moderator test results (*Source:* This Study).

			Estimate	S.E	C.R	*p*	Decision
ZSAT	<—	ZCD	−0.239	0.039	−6.096	***	Supported
ZSAT	<—	ZCO	0.437	0.038	11.356	***	Supported
ZSAT	<—	Int	−0.011	0.037	−0.288	0.774	Rejected

This study is significant for banks who find themselves in demarketing dilemmas. In instances where demarketing is unavoidable, banks can improve CO by assigning dedicated relationship managers for consistent and empathetic communication, provide automated status updates with detailed explanations for rejections, and establish two-way feedback channels like chatbots or customer support systems. To mitigate CD, banks can launch educational campaigns to explain demarketing decisions, train staff in empathetic communication and offer personalized improvement plans with actionable financial health tips. Finally, to strengthen customer relationships, banks can provide value-added services such as financial advice or credit score monitoring and implement loyalty programs to reward long-term commitment, even after negative interactions. These steps offer actionable strategies to increase loyalty and positive brand perceptions.

7. Conclusion

In conclusion, this study aims to contribute significantly to literature on CD, specifically in the banking sector, which is a unique context with its specific challenges and customer interactions. The findings look to offer practical insights for companies seeking to navigate demarketing dilemmas effectively and build strong relationships with consumers.

This study seeks to provide implementable solutions for banks to enhance customer satisfaction, foster loyalty, and improve overall customer relationships in the context of demarketing, which is often an inevitable occurrence. While existing literature recognizes the necessity of demarketing in certain scenarios, the specific absence of comprehensive studies addressing actionable solutions tailored to the unique challenges faced by banks is evident. Particularly, the scarcity of research that intricately explores the dynamics of CD within the demarketing context in the banking sector highlights the need for further research.

From a practical standpoint, this study could assist banks in conducting demarketing activities without jeopardizing long-term relationships or compromising customer loyalty. By doing this, banks can devise targeted strategies to mitigate dissonance and strengthen customer relationships. Understanding and leveraging these dynamics can empower banks to proactively address customer needs, cultivate lasting brand loyalty, and enhance their competitive edge. Given that open communication is crucial for effective relationships between organizations and their customers (Fensel et al., 2014; Madden & Perry, 2003), comprehending its role can serve as a vital tool for managing CD and preserving loyalty. This, in turn, can significantly contribute to banks' brand equity.

While this study makes valuable theoretical and practical contributions, caution is warranted when applying or generalizing the results due to several limitations. First, the success of the study relied on the construction of vignettes, which despite being pretested may not always accurately reflect the conceptualization, potentially affecting internal validity. Second, adapting variables from previous instruments could lead to inaccurate measurements, impacting the study's validity and reliability. Third, measurement challenges exist in studying CD, affecting the study's key construct. Fourth, the use of non-probability convenience sampling raises concerns about sample representativeness and generalizability. Finally, the study's cross-sectional design and reliance on data collected at a single point in time limit its external validity and depth of insight compared to longitudinal studies.

This research presents opportunities for future research. Further exploration into CO's lack of a moderating effect on the relationship between CD and satisfaction could also yield deeper insights, and analyzing diverse contextual factors or demographic variables may unveil nuances in this dynamic. Longitudinal studies tracking changes in dissonance, satisfaction, and loyalty over time could also provide a comprehensive understanding of these dynamics, illuminating their evolution throughout the consumer decision-making process. For example, tracking participants who experience demarketing decisions across multiple interactions with a bank can provide insights into how their perceptions change and how communication strategies impact long-term loyalty. From a demographic point of view, more nuanced insights (e.g. age, gender, tenure with the bank and primary bank affiliation) and whether they affect the relationships could be insightful for future research. Future studies could also employ probability sampling methods to include a more diverse range of participants across demographics, particularly those underrepresented in this study. Additionally, supplementing quantitative data with qualitative methods like interviews or focus groups could offer deeper insights into the emotional and cognitive dimensions of customers' responses to demarketing decisions. Evaluating the effectiveness of different communication strategies in managing CD and enhancing satisfaction could additionally provide practical guidance for companies which could inform best practices in demarketing communication. Exploring these avenues of research could enrich our comprehension of demarketing dilemmas and offer valuable insights for academia and industry alike.

Author contributions statement

The authors confirm contribution to the paper as follows: study conception and design: F. Kigen and M. Venter de Villiers; data collection: F. Kigen; analysis and interpretation of results: F. Kigen and M. Venter de Villiers; draft manuscript preparation: F. Kigen. All authors reviewed the results and approved the final version of the manuscript and are accountable for all aspects of the work.

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Data availability statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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Appendix A – vignettes

Applying for a home loan…

Imagine that you are a professional who is making good progress in your career and also in your personal life. You have a good job with which you are happy, you have been saving for a few years and you have finally decided to take the first step towards becoming a homeowner. You have identified the area in which you want to live in, have worked out your budget and have obtained a list of requirements to apply for a bond (home loan) from your primary bank, Bank XYZ. With Bank XYZ, you hold a cheque account where your salary goes, a savings account and a credit card.

You have been with Bank XYZ for a while and for the most part you have been financially responsible. You approach your branch to put in an application and you are assigned a Home Loans Specialist, Brandon, to assist you with the application process. After a bit of back and forth about the documentation required, you finally complete your application and submit it for consideration.

72 h after you have put in your application in, you get the below message from the bank.

Dear Customer,

We regret to inform you that your home loan application was unsuccessful. We have assessed your application and have considered your current credit profile with the Credit Bureau and account management with Bank XYZ. After taking these into consideration, we regret to inform you that your application was unsuccessful. We truly value your future business. For further details about your application, please contact 0860 1213 for a discussion on how you can improve the chances of an approval in the next 6 to 12 months.

If you have any further questions, please do not hesitate to contact your Home Loans Specialist.

Regards,

Bank XYZ Home Loans Department

Communication openness

During the loan application process, you had been allocated a Home Loans Specialist, Brandon, who assisted you with completing your application. He guided you through the features of the different home loan products and helped you to narrow down on the right product for you. This was a relief as you had never done this before and did not know where to start. The whole process between approaching the bank for the loan and receiving the letter of decline was ten days and during that time, you and Brandon communicated at least once a day either on email or on phone. The nature of the emails/phone calls ranged from requests for additional documentation and updates on the loan application status, to notifications that he would be away from the office. Brandon was available to answer your questions, though a few times he had to get back to you to clarify something after speaking to the credit department. You were not allowed to speak to the Credit Department directly so all your communication was with Brandon.

Appendix B – measurement scales

Cognitive dissonance

After you received communication from the bank that your home loan had been declined, how do you think you would be feeling?

- Resent your decision to apply
- Disappointed with yourself
- Angry
- Annoyed
- Frustrated
- Depressed
- Furious with yourself
- Wondered if you really needed the home loan
- Wondered whether you should have applied at all
- Wondered if you had done the right thing in applying
- Wondered if the bank had not been completely honest
- Wondered if there was a problem with the response you had received

Communication openness

- The bank kept me very well informed about what was going on with my home loan
- The bank explained the home loan application process in a meaningful way
- The bank offered me as much information as I needed
- The bank explained to me the pros and cons of the home loan product recommended to me
- The bank clearly explained their final decision to me

Satisfaction

- Your relationship with Bank XYZ has been productive
- The time and effort that you have spent with Bank XYZ has been worthwhile
- Your relationship with Bank XYZ has been satisfactory
- Your relationship with Bank XYZ has been fruitful
- The time and effort that you have spent with Bank XYZ has been meaningful

Loyalty

- I will use Bank XYZ in the future
- I feel like I will stay with Bank XYZ forever
- I wish to continue getting services from Bank XYZ
- I would consider Bank XYZ as my first choice
- I would do more business with Bank XYZ in the next few years
- I would do less business with Bank XYZ in the next few years
- I will not switch to another bank even though there are lots of other bank options
- I am willing to pay more than any other bank to stay at Bank XYZ
- I will always use Bank XYZ
- I consider myself to be a loyal patron of Bank XYZ
- I would say positive things about Bank XYZ to other people
- I would recommend Bank XYZ to someone who seeks my advice