

INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

THANK HEAVENS FOR COMPLAINERS:
IMPACT OF EFFECTIVE SERVICE RECOVERY ON CUSTOMER SATISFACTION
AND POST-BEHAVIOURAL INTENTION IN MALAYSIAN BANKING INDUSTRY

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Abstract

The commercial banks are among the service organizations that face intense competition all over the world. The competition has permitted customers to behave in a more demanding manner in their dealings with service providers since there are plenty of choices available in the market. In response, banks are implementing plans and strategies which can enhance customer satisfaction and post-behavioural intention through improved service quality. Unfortunately, service failures are unavoidable even for the best bank. Thus, an effective service recovery, the successful actions a service provider engages in response to a service breakdown, could result in the difference between customer retention and defection. In brief, this research aims to contribute to a growing body of service recovery knowledge by examining the relative impact of service recovery (perceived justice) on customer satisfaction as well as the relationships between customer satisfaction and post-behavioural intention (perceived trust, word of mouth and continue of service intention) in Malaysian commercial banking environment. Based on the research findings from 300 respondents, the impact of perceived interactional justice on customer satisfaction appears to be stronger than that of perceived procedural justice or perceived distributive justice. The findings also indicate that the effect of customer satisfaction on perceived trust is significant and positive. Lastly, the significant and positive effect of customer satisfaction on word of mouth as well as continue of service intention confirms again service recovery attempts after a service failure could ultimately enhance the post-behavioural intention of customers.

Keywords:

Service recovery, perceived distributive justice, perceived procedural justice, perceived interactional justice, customer satisfaction, perceived trust, word of mouth, continue of service intention, Malaysian banking industry.

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Goh Guanng Tyng

10th December 2012

Declaration

"I hereby declare that this research project is of my own effort except for those summaries and information of which the sources are clearly specified."

10th December 2012

Goh Guann Tyng

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List of Abbreviation

COSI	Continue of Service Intention
EFA	Exploratory Factor Analysis
PDJ	Perceived Distributive Justice
PIJ	Perceived Interactional Justice
PPJ	Perceived Procedural Justice
PT	Perceived Trust
SPSS	Statistical Package for Social Science
TARP	Technical Assistance Research Program
WOM	Word of Mouth

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Chapter I

Introduction

1.0 Chapter Summary

Chapter one begins with the background of the research study. It basically gives an overview of service failure, service recovery and Malaysian banking industry. From here, various research gaps are identified and discussed. Subsequently, they are followed by the research objectives. For the later part of this chapter, significance of the research, assumptions, limitations and scope of study are presented. Lastly, an outline of every chapter in this research paper is provided.

1.1 Research Background

1.1.1 Service Failure and Service Recovery

In services marketing, the best strategy to maintain excellent service quality and productivity is do it right the first time (Lovelock & Wirtz, 2011). However, it is hard to be achieved as most of the "moments of truth" in service encounters are vulnerable to failures and sometimes they happened for reasons beyond the control of an organization. The intangible and inseparable nature of services has made service providers even tougher to avoid service failures during service delivery. Thus, Bitner, *et al.* has decided to build a service failure classification model with the help of critical incident technique (Bitner, *et al.*, 1990). Having various forms of service failures categorized into three basic groups, the service failure classification model is then widely adopted by other researchers and practitioners as it allows them to have a better understanding on customer reactions and construct feasible recovery strategies. According to the model, service failures are classified as followed: (1) unavailable services, (2) unreasonably slow services and (3) other core service failures. Unavailable services refer to the absent services which usually present such as unavailable

cheque-book at the counter when someone is asking for it. Unreasonably slow services refer to the slow employee responses when dealing with customers. Other core service failures occur when the employee behaviours are unacceptable by the customers. In general, dissatisfied customers could possibly take any of the following three courses of action after a service failure: (1) take some form of public action (including complain to the service firm, complain to a third party or take legal action to seek redress), (2) take some form of private action (including switch provider or spread negative word of mouth (WOM)) or (3) take no action (Lovelock & Wirtz, 2011).

Service recovery is defined as the systematic measures by a service firm to rectify a mistake following a service failure and to retain a customer's support (Lovelock & Wirtz, 2011). Another definition for service recovery is actions that engaged by a service firm to deal with the customer complaint in relation to a perceived service failure (Gronroos, 1990). Service recovery attempts play an important part in achieving customer satisfaction and customer loyalty. In fact, the crucial test of a service firm's commitment to satisfaction and loyalty is no longer stop at fulfilling advertising promises; nonetheless, it has been extended to include the firm's responses when things go wrong for the customers (service failures).

Stephen Tax and Stephen Brown have found out that the variation in the customer satisfaction with a service recovery can be explained by three dimensions of perceived fairness, namely distributive justice, procedural justice and interactional justice (Tax & Brown, 1998). Distributive justice refers to the compensation a customer gets in consequence of the inconveniences and losses that caused by a service failure. This includes compensation for not only the failure but also time, effort and energy spent in the service recovery process. Procedural justice involves policies and rules that any customer has to undergo in seeking fairness. In order to portray this kind of justice, the service firm ought to assume responsibility at the very beginning as well as provide a flexible, convenient and responsive recovery process. Interactional justice involves employees of the firm who deal with the service recovery and their behaviours towards the customers. To demonstrate interactional justice, the employee

should provide an appropriate explanation for the failure and make sure that all recovery efforts are deemed as polite, honest and genuine.

Apart from that, managers should be grateful or have the "thank heavens for complainers" attitude whenever they receive complaints from customers. This is rather true as service firm is having the chance to rectify mistakes, restore relationships with the complainer and improve overall customer satisfaction only if the customers are willing to launch complaints. Furthermore, Simon Bell and James Luddington have found out that well-trained and highly motivated employees are more likely to view complaints as a potential source of improvement and ready to go extra miles in assisting customers (Bell & Luddington, 2006). Thus, the success in this area required firms to select the right candidates and focus on employee training and motivation.

In addition, it is always not easy to have effective service recovery in place as it demands for comprehensive procedures for resolving conflicts and handling aggrieved customers. This is a critical aspect as even a small service mistake could possibly destroy a customer's trust in a particular service firm. Zeithaml and Bitner have suggested that an effective service recovery process should encompass the following six components: (1) do it right the first time, (2) welcome and encourage complaints, (3) act quickly, (4) treat customers fairly, (5) learn from recovery experience and (6) learn from lost customers (Zeithaml & Bitner, 2000). Likewise, an effective service recovery system should include the following functions: (1) conduct research, monitor complaints and develop "complaints as opportunity culture", (2) develop an effective system of training for complaints handling and (3) conduct root-cause analysis (Lovelock & Wirtz, 2011). Despite its strategic relevance, service firms still tend to overlook the importance of effective service recovery and corrective measures are usually punitive. For some cases, those recovery efforts are poorly defined and they lead to a double deviation effect. Such statement is supported by Michel and Meuter as they have proven that only 30% of customers who lodge complaints with a company are satisfied with the company's complaint handling attempts (Michel & Meuter, 2008).

1.1.2 Malaysian Banking Industry

Banking industry is considered as the backbone of every nation. Under the development of economies, commercial banks or retail banks are given the significant responsibility to effectively allocate and mobilize the possible resources. Malaysian banking industry has gone through serious transformations over the past few years and currently there are altogether 2,065 banks in Malaysia (The Association of Banks in Malaysia, 2012). Malayan Banking Berhad is the biggest player as it has 395 branches in Malaysia. It is followed by Hong Leong Bank Berhad (329 branches) and CIMB Bank Berhad (325 branches). Substantial liberalization of the financial services sector has forced every single bank to perform under competitive pressures and such situation has in fact brought in the concept of marketing especially on the dimension of customer satisfaction. Every bank understands the importance of retaining its existing customer bases as the cost to acquire a new customer is much higher than the cost of retaining an existing customer (Calciu, 2008). Hence, knowing the customer needs has become the only way to survive in the fast changing retail banking industry.

Apart from that, one of the recent trends in Malaysian banking industry is the shift of a product-focused view to a customer-focused approach. This is rather true as banks are no longer stressing on product differentiation but constantly focusing on strategies which can improve the overall service quality. For example, an excellent bank normally provides superior services like queue management services, simplified account-opening processes, private wealth management services, empathetic customer relationship management, remote access by means of mobile and internet banking, staffing branches with more specialized advisors and so on to the customers. Furthermore, almost 90% of bank switching in the Asian banking market is due to pricing (interest rates, credit rates, lending rates and other service charges), service quality and inconvenience (Gerrard & Cunningham, 2004). Nonetheless, pricing is being regulated in Malaysia and this has made service quality becomes the major factor in determining one's preferred bank. In brief, excellent service performance leads to higher customer satisfaction and positive word of mouth.

On the other hand, service failures tend to have a negative impact on satisfaction and word of mouth. Thus, it is always advisable for banks to apply effective complaint handling and service recovery mechanisms.

1.2 Problem Definition

Service failures, scenarios when services fail to match with the customer's expectations, are unavoidable and usually take place in both the process and the outcome of service delivery. Most of the firms will apply service recovery to deal with the service failures. To add on, successful service recovery can improve customers' perceived quality of the services, lead to positive word of mouth, enhance customer satisfaction and ultimately foster good customer relationships and customer loyalty (Komunda & Osarenkhoe, 2012). On the contrary, ineffective service recovery may lead to low confidence level in a firm and spread of negative word of mouth communication (Komunda & Osarenkhoe, 2012).

Technical Assistance Research Program (TARP) research has shown that repurchase intentions for various types of products range from 9% to 37% when customers are dissatisfied but do not complain (Lovelock & Wirtz, 2011). The retention rate will increase from 9% to 19% if the customer files a complaint and the company tries its very best but is still unable to resolve the problem. If the complaint could be resolved to the satisfaction of the customer, the retention rate will jump to 54%. The highest retention rate, 82%, will be achieved when problems are fixed quickly on the spot. Lewis and Spyropoulos have identified that more than 70% of customers who complain can be persuaded to continue deal with the offending retailer, provided that some efforts are made to recover (Lewis & Spyropoulos, 2001). All these are rather similar to the concept of service recovery paradox. On the other hand, research has shown that the service recovery paradox is far from universal. For instance, a study of repeated service failures in a retail banking context has showed that the service recovery paradox exists after the first recovery attempt. However, the paradox tends to disappear if there is a second service failure (Maxham & Netemeyer, 2002).