FACTORS INFLUENCING SATISFACTION WITH SERVICE RECOVERY AND WORD-OF-MOUTH: AN EMPIRICAL STUDY OF BANKING INDUSTRY IN MALAYSIA

Muhammad Tahir Jan[1]
Nurbainy Susendra Mohd Anuar[2]
Naheed Sultan[3]

Abstract: Purpose *- The purpose of this paper is to investigate the impact on external attributions, unstable attributions, uncontrollable attributions, service recovery efforts on customer satisfaction with service recovery. In addition, the paper also attempts to investigate the impact of customer satisfaction with service recovery on word-of-mouth intention.* ***Design/methodology/approach*** *– A self-administered questionnaire, adapted from previous studies, was distributed through convenience sampling method to those customers who had experienced service failures in the banks and had also afterwards complaints about that experience. A total of 350 questionnaires were distributed in order to collect data for the same purpose.* ***Findings*** *- The results show external attributions, unstable attributions, uncontrollable attributions, service recovery efforts have significant effects on customer satisfaction with service recovery. Moreover, there is also a significant positive impact of customer satisfaction with service recovery on word-of-mouth intentions.* ***Practical implications*** *– In the banking sector, service recovery is an important element in satisfying the customers. As a result, this study will assist the banks in achieving higher profit, higher market share and higher return by ensuring customer satisfaction when the complaints are heard and addressed. It will also generate positive word of mouth, which may eventually create a positive image of the banks.* ***Originality/value*** *– This paper is a unique attempt to understand the critical factors behind customer satisfaction with regard to service recovery, particularly in Malaysian banking industry. It also has many methodological and practical implications.*

Keywords: *Customer Satisfaction, Service Recovery, Word-Of-Mouth, Banking Industry, Malaysia*

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[1] Muhammad Tahir Jan, PhD., Assistant Professor, Department of Business Administration, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Malaysia.
[2] Nurbainy Susendra Binti Mohd Anuar, Graduate Student, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Malaysia.
[3] Naheed Sultan, PhD Scholar, Ahmad Ibrahim Kulliyyah of Laws, International Islamic University Malaysia, Malaysia.

Introduction

In order for the business to survive in the short and long run, banks need to maintain a good relationship with their current and existing customers because it is costly to attract new customers rather than retain and maintain the existing customers. However, in order for the companies to maintain this lasting relationship with customers, their satisfaction is necessary. According to Anderson and Sullivan (1993) and Yi and Nataraajan, (2018) satisfaction is a customer's overall or global judgment of products or services, especially with regard to its performance and expectation. Similarly, Erevelles and Leavitt (1992), Tse et al. (1990) mentioned that customer satisfaction can be described as a process of "expectancy disconfirmation," in which satisfaction is viewed as largely based on meeting or exceeding expectation. From the point of view of the banks, through customer satisfaction it does assist banks in determining the level of satisfaction for services, awareness of customer expectations and one of the ways to improve the services. Moreover, banks also are benefited through customer satisfaction since it is the cheapest means of promotion. Further, from the point of view of customers, customer satisfaction does influence repeat purchases and word of mouth recommendations of the services to another potential new customer(s).

It is important for the banks to satisfy the needs of their customers in order to sustain the bank's profitability because the current banking environment is very stiff and competitive. Banks do provide services in different ways to different customers. Banks are striving to offer high quality customer service thus it is important for the banks to successfully deal with service recovery in order to re-establish and maintain positive relationships with customers. Armistead et al. (1995) define service recovery as "the specific actions taken by organisations to ensure that the customer receives a reasonable level of service after problems have occurred to disrupt normal service". For any occurrence of service failure, it may deteriorate the relationship with customers, which may lead to customer dissatisfaction and eventually negative word-of-mouth and customer defection, if the service failure is not properly managed by the banks. According to Hart et al. (1990), Kim (2007) and Xu, Liu, and Gursoy, (2018) argue that with a good service recovery effort an angry and frustrated customer could become a loyal customer. In addition, with service recovery it does give an opportunity to the banks to respond in reducing the dissatisfaction, thus repeating the business for higher returns (Umashankar, Ward, & Dahl, 2017). In reality, banks are unable to eliminate all the failures even though it is a customer-oriented banks which offer high level of services to their customers. Banks are aware that if the service failure is not being handled properly it will deteriorate the relationship between the banks and the customers. Customers view the service failure as unpleasant, therefore, banks are responsible to recover service failure in order to avoid negative consequences and to re-establish relationships. The responses that banks do may include solving the customers' problem, offering compensation, apologizing and displaying favourable behaviour etc. This paper focus on investigating those factors that affect customer's satisfaction with service recovery in Malaysian banking sectors. The specific objectives of the study are:

1. To investigate the impact of external attributions on customer satisfaction with service recovery.

2. To examine the impact of unstable attributions on customer satisfaction with service recovery.

3. To investigate the impact of uncontrollable attributions on customer satisfaction with service recovery.
4. To examine the effect of customer perception of banking service recovery efforts on customer satisfaction with service recovery.
5. To examine the effect of customer satisfaction with service recovery on word-of-mouth intention.

Literature Review and Hypotheses Development

Customer Satisfaction with Service Recovery

Satisfaction with service recovery is defined as "the positive assessment customers make when comparing the benefits and sacrifices of the failure with the consequences of the solution to the problem encountered" (Huang, 2011). Customer satisfaction with service recovery has been categorized as critical for banks since it is difficult to maintain positive relationship with customers after service failure (Umashankar, Ward, & Dahl, 2017). Further, service failure by organisations and the attempts to recover those failures are often linked with strong emotional reactions from customers. These reactions impact customers' decision in future, whether to remain in a relationship or to exit the relationship with the bank. Customer satisfaction with service recovery mostly taps the cognitive aspects of customers' behaviour such as expectations, disconfirmation, justice, perceptions, etc (Chatterjee, 2018).

Causal Attributions

In all banking transactions, customers usually match their expectations with the actual performance of the service or with their experience of a service encounter. In this process customers may identify the reasons for success or failure of the service delivery. There whole evaluation process is based on three criteria that is: origin, stability, and control (Kibler, Mandl, Kautonen, & Berger, 2017; Weiner, 2000).

The first is the origin or locus attribution which refers to the search for the originality. This search for originality divided into internal attributions and external attributions. For internal attributions the customers perceive the causes of the problems are contributed by the customers themselves. Whereas, for external attributions the causes of failures are the responsibility of the banks, the environment and/or any third party. However, majority of the customers perceive that most of the failures are the responsibility of the banks (Hess et al., 2003; Moliner et al., 2009; Ozkan-Tektas & Basgoze, 2017; Smith et al., 1999). In addition, according to Maxham and Netemeyer (2002) and Moliner et al. (2009), these attributions have a great impact on customer satisfaction and dissatisfaction with the service experience.

Further, stability attributions are when the customers assess the problem and its causes. Customers also evaluate the likelihood of the repetition of the same problem in future. Opposite to the aforementioned is unstable or temporary cause attributions, which is when the problem occurs only one-off. Customer satisfaction is at the lowest level when customers experience the problems to be repeatedly (Casado & Mas, 2002).

Lastly, controllable attributions are when the customers expect that the banks have some control over the causes of service failure and it can be prevented and solved accordingly. opposite to that is uncontrollable attributions, a situation when customer thinks that the banks are unable to prevent the occurrence of service failure. Studies (see e.g., Magnini et al., 2007)

confirm that customer satisfaction was greater when they perceive that bank have little control over the cause.

Velazquez and Molina (2015) argue that these three attributions are the main reason of customer satisfaction or dissatisfaction with a service provider. Based on the above discussion, the following hypotheses are put forward:

H1   *External attributions of banking service recovery efforts will have a negative impact on customer satisfaction with service recovery.*

H2   *Unstable attributions of banking service recovery efforts will have a positively impact on customer satisfaction with service recovery.*

H3   *Uncontrollable attributions of banking service recovery efforts will have a positively impact on customer satisfaction with service recovery.*

Service Recovery Efforts

Service recovery is defined as "process that identifies service failures, effectively resolves customer problems, classifies the root causes and yields data that can be integrated with other measures of performance to assess and improve the service system" (Tax & Brown, 2000). There are three elements in the service recovery process these are: customer, process, and employees (Harrison, 2018).

In unsatisfactory situation, customers do not only evaluate the solution or results from the organisations (banks), such as what they receive, but they also evaluate the recovery process from the banks, such as how they receive the service recovery. Therefore, it can be said that service recovery has twofold dimension that is; the results and the process. Santos et al. (2013) illuminated three factors in recovery practices: rapid response, fair outcome, and employee support.

Further, compensation has also being classified as an effective tool for service recovery. Compensation can be divided into either tangible, such as replacing the services and offering discounts on future purchase, or intangible, such as showing concern for customers needs and desires. However, mostly customers demand the compensation to be accompanied with the explanations and with rapid response from the bank, which in turn significantly impact customers' assessment of the service recovery effort from the banks (Velazquez & Molina, 2015). The above discussion, therefore, lead to the following hypothesis:

H4   *Customer perception of banking service recovery efforts will have a positive impact on customer satisfaction with service recovery.*

Word-of-Mouth

Word-of-mouth (hereafter, WoM) can be defined as "an informal person-to-person communication between a perceived non-commercial communicator and a receiver regarding a brand, a product, an organization or a service" (Harrison-Walker, 2001). However, it does not include a more formal communication from an organisation with the customer. These may include not only promotional communication originating from the organisation but also formal communication from customers like: complaints and suggestions etc. (Marchand, Henning-Thurau, & Wiertz, 2018). It is important to note that WoM is considered more effective because of its direct, personal, real, and more credible nature compared to other types of promotions. This is particularly true when the communication is negative in nature, for example, in case of service failure. It means that when the customers are treated unfairly, they will likely spread negative WoM.

Studies have been conducted on the impact of customer satisfaction with a service provider on WoM (Jan et al., 2013; Velazquez & Molina, 2015) and eventually on the changes that arise from that interpersonal communication on attitude or behavioural intentions (see e.g., Gilly et al., 1998). It is, therefore, hypothesised that:

H5   ***Customer satisfaction with service recovery will have a positive impact on word-of-mouth.***

The Model
Figure 1 shows all the five hypotheses incorporated into the conceptual framework develop to test the envisaged factors with their impact on customer satisfaction and ultimately on WoM.
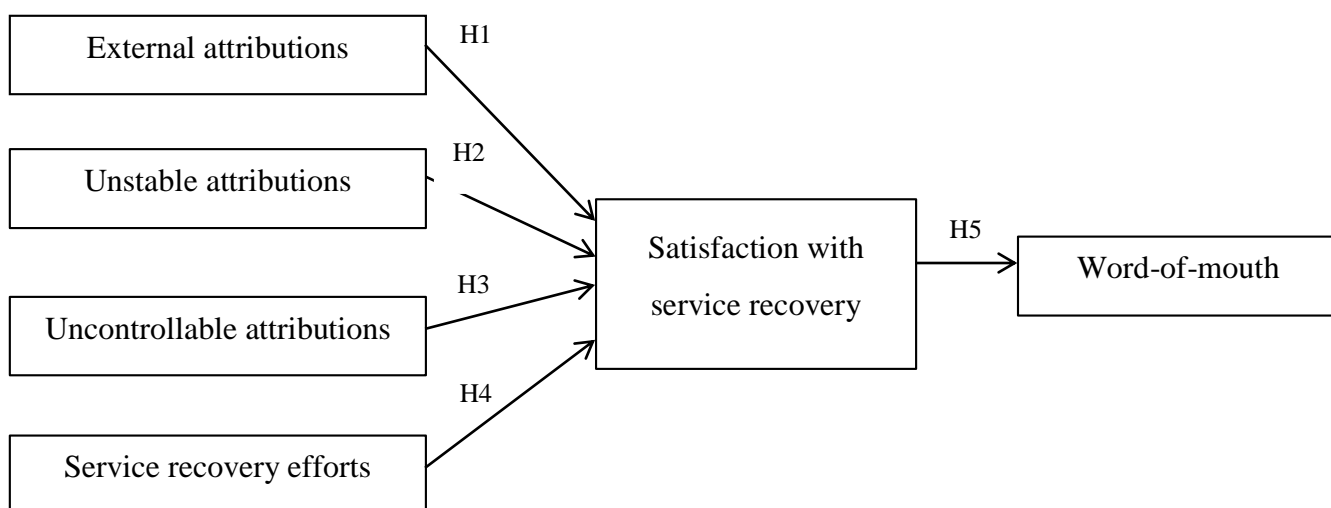

Figure 1: Conceptual Framework

Methodology

Sample
A purposive sampling method was employed in the present study where data on customer who have lodged complaints with their respective banks. Customers' information are retrieved from the Customer Relationship Management (CRM) systems of the banks. The researchers approached the selected banks and requested for assistance in collecting the data for this study. Next, a self-administered survey questionnaire was sent online to those customers who have faced at least one service failure with the bank and their service failure has been successfully resolved by employees accordingly. A total of 350 questionnaires were distributed customers who had experienced failures in the banks and had afterwards complaints. After two weeks, 263 survey questionnaires were received, however only 233 completed survey questionnaires were selected for final data analysis. The questionnaires used a five-point Likert's scale with anchors ranging from 1 (strongly disagree) to 5 (strongly agree) in order to ensure high statistical variability among the responses.

Instrument Development
The questionnaires used in this study consists of questions adapted from previous studies and was designed to capture the items necessary in addressing the research hypotheses. The questionnaire contained two main sections with section A covering demographic variables,

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whereas, section B covering all the independent and dependent variables. Items to measure 'external attributions' are adapted from Maxham and Netemeyer (2002). Similarly, questions for 'unstable attributions' and 'uncontrollable attributions' are adapted from Wirtz and Mattila (2004). Items measuring 'service recovery efforts' are adapted from Bradley and Sparks (2012), whereas, questions on 'customer satisfaction with service recovery' are taken from the developed scale of Goodwin and Ross (1992) and word-of-mouth are adapted from DeMatos et al. (2009).

Data Entry and Data Processing
Once the data was collected, it went through exhaustive process of screening for any missing values and offending entries. The data was extracted from the spreadsheet and fed into Statistical Package for Social Sciences (SPSS) software for further data analysis purposes.

Findings

Demographic Profile
From the results it is evident that female respondents (57.1%) are more than the male's counterpart (42.9%). With regard to respondent's age, majority (27.9%) belongs to the age bracket of 30-34 years. Interestingly, majority (39.5%) of the customers who encountered service failure with the banks and reported that failure is from private sector. The results of this study have also been influenced by those people with income ranging from RM 1k per month to RM 5k per month. Lastly, 48.1% of the respondents reported to have experience less than 5 years, indicating a major influence of this group on the findings. Detailed results of demographic variables are shown table 1.

Gender	Age	Occupation	Income	Service Duration
Male (42.9%)	20-24 (5.2%)	Student (6.4%)	<RM 1K (9.4%)	< 6 months (7.3%)
Female (57.1%)	25-29 (7.3%)	Housewife (16.7%)	RM 1K – RM 5K (42.9%)	<2 years (32.6%)
	30-34 (27.9%)	Public Sector (31.3%)	RM 5K – RM 10K (36.5%)	<5 years (48.1%)
	35-39 (46.4%)	Private Sector (39.5%)	>RM 10K (11.2%)	>5 years (12.0%)
	40-44 (8.6%)	Pensioner (6.1%)		
	>45 (4.6%)			

Table 1: Results of Demographic Variables

Reliability and Validity

The Cronbach's alpha coefficient (α) test was applied to assess the internal consistency reliability of the scale. The overall scale's Cronbach's α coefficient value was 0.891 and it is above the recommended value of 0.7. In addition, each variable's Cronbach's α coefficient value was also evaluated and is presented in Table 2.

Variables	Items	Cronbach's Alpha Coefficient
Overall scale	28	0.891
External attributions	4	0.708
Unstable attributions	4	0.611
Uncontrollable attributions	4	0.787
Service recovery efforts	5	0.936
Satisfaction	5	0.752
Word-of-mouth	6	0.752

Table 2: Results of Reliability Test

Hypotheses Testing

External attributions (H1) has a negative influence on customer satisfaction with service recovery, while the other variable that is unstable attributions (H2), uncontrollable attributions (H3), service recovery efforts (H4) and word-of-mouth intention (H5) all resulted in a positive and significant impact on customer satisfaction with service recovery, as envisaged. Further, the highest beta is of service recovery efforts (0.764) followed by word-of-mouth (0.687), uncontrollable attributions (0.399), unstable attributions (0.362) and external attributions (-0.221). It shows that customers do have high expectations when it comes to effectively and efficiently resolving any issues faced by the customers, particularly, complaints. In addition, the result shows the t-value also correspond with the beta value. In this case, higher beta value resulted in higher t-value. All hypotheses are accepted, which indicates that the framework of satisfaction with service recovery is generally reasonable and acceptable. The results of the hypotheses testing is presented in Table 3.

Hypotheses	Standardised Beta	t-value	Significance level	Decision
External attributions → Customer satisfaction	-0.221	-5.498	0.006*	Accepted
Unstable attributions → Customer satisfaction	0.362	7.474	0.004*	Accepted
Uncontrollable attributions → Customer satisfaction	0.399	7.770	0.004*	Accepted
Service recover efforts → Customer satisfaction	0.764	16.691	0.000*	Accepted
Customer satisfaction → Word-of-mouth	0.687	15.880	0.000*	Accepted

Note: * = Significant at $p < 0.05$

Table 3: Results of Hypotheses Tests

Conclusion

Banks need to constantly increase customer satisfaction due to its influence on the loyalty behaviour. This true in today's era of increased repetition, increase cross selling efforts,

decrease in price sensitivity, and above all, increase in word of mouth communication. The growth in information and communication technology, especially the reliance of customers on social media, organisations, particularly service organisations like banks, can not simply deny the importance of WoM. Moreover, banks, as a service provider, has to rely on human (employees) in order to provide various types of services. The human involvement has one major issue and that is inconsistency in terms of service provision, which often results in failure. This failure of service leads to customer dissatisfaction, eventually generating negative WoM. Therefore, it is imperative for banks to have remedial action on how to treat and solve service failures efficiently in order to reduce the damage at minimum costs.

As complaints serve as an early warning signals that allow the organization to take remedial action before further damage, the implementation of adequate complaint management system is important in reaching high levels of customer satisfaction. Good complaint management system assists the employees in providing logical explanations to the customers. It also empowers them to act quickly in case of service failure. Moreover, banks need to take the initiative in training employees in managing complaints. The employees should also give attention to those customers whom choose not to complain because these customers may go to another bank. It also important that employees are aware of the influence and impact of negative WoM. Lastly, management has to adopt a customer orientation strategy in providing the high-level services in ensuring the importance of achieving a satisfactory recovery process being transferred to all employees.

Customer satisfaction in service recovery is an important element for the banking environment, therefore, banks should be aware of the importance of customer perception of the causes of the failure and the recovery efforts. As evident from the result of this study, the service recovery efforts have a major impact on customer satisfaction, so banks need to improve services recovery efforts continuously and eliminate any repeat failures. It can be concluded that in the recovery effort, banks have to design an appropriate protocol for solving the problems in order to satisfy customers accordingly.

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