# Service Recovery, Satisfaction and Customers' Post Service Behavior in the Malaysian Banking Sector

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**Abstract.** *Financial services sector has become very competitive after Malaysia government's liberalization policy. In order to address the increased competition, banks have shifted their strategy from product-centered to a customer-centered strategy. This study tests a model related to the relationship between the service recovery, customer satisfaction and customer after purchase behavior. To test the proposed model, 370 self-administered questionnaires were distributed. The analyses based on Structural Equation Modelling (SEM) reveal direct relationships between perceived distributive justice, perceived procedural justice, perceived interactional justice and customer satisfaction in regard to service recovery. The results also show that customer satisfaction increases the level of trust among customers. There is also a high possibility that satisfied customers will spread positive word of mouth that can reinforce the good reputation of the service provider. Bootstrap is used to examine the mediation effects of satisfaction and the results show that customer satisfaction fully mediates the relationship between perceived interactional justice and word of mouth. The results also indicate that customer satisfaction partially mediate the following relationships; perceived distributive justice with word of mouth, perceived procedural justice with word of mouth and perceived interactional justice with perceive trust. However, the fact that this study is conducted by using cross sectional method, focuses on banking industry and covers a small area of the country should be taken into consideration for any generalization of results.*

## Introduction

The banking industry is the backbone of every nation's economy. Financial services sector has become very competitive after government liberalized the industry by allowing new international players to open their branches in Malaysia in 2010. To address this intense competition, banks have shifted their strategy from product-centered to a customer-centered strategy. Studies show that to change the strategy, it is advisable for banks to apply effective mechanisms to maintain excellent service quality and thus increase productivity by providing the required services at the first attempt (Lovelock & Wirtz, 2011).

However, it is quite intricate to obtain the intended outcomes as most of the "moments of truth" in the field of services are susceptible to failures and sometimes failures happened due to reasons that are beyond the control of the service provider. The literature in banking classifies service failure into three categories; 1) unavailable services, 2) unreasonably slow services and 3) other core service failures (Bitner, Booms & Tetreault, 1990). Unavailable services refer to the absence of services that are usually available and unreasonable slow services refer to the slow responses by the customer service employees when dealing with their customers. Meanwhile, other core service failures occur when the employees' behavior are unacceptable by the customers' standard. For example, instead of providing services to the customers, the employees are talking among themselves and making personal calls. Thus, service failures can evoke dissatisfaction among customers and they would take any of the following actions: 1) in a form of public action (i.e., complaining to the service firm, sharing the problem on social networks such as twitter and facebook and spread negative word of mouth (WOM)), 2) private action (i.e., switch provider) or 3) no action due to the monopoly nature of industry (Lovelock & Wirtz, 2011).

To avoid the negative impacts of service failures, the service provider should try to overcome the problem quickly by implementing the most suitable service recovery (SR) procedures. SR is defined as systematic actions which are taken by a service provider to rectify the error following a service failure in order to regain customers' support (Gronroos, 1990). However, to have ef-

fective SR can be difficult since to resolve conflicts and managing aggrieved customers require comprehensive procedures (Zeithaml & Bitner, 2000). Successful SR can improve customers' perceived quality of the services and lead to positive word of mouth, good customer relationship and customer loyalty (Komunda & Osarenkhoe, 2012). However, ineffective SR will decrease the level of confidence among customers towards the service provider and cause the emergence of negative word of mouth regarding the particular service provider (Komunda & Osarenkhoe, 2012).

Despite its strategic relevance, firms still overlook the importance of effective SR and corrective measures are usually far from the acceptable level of systematic SR procedure. In fact, in many cases, recovery effort is poorly executed and usually tend to lead a double deviation effect. Studies show that only 30% of customers who lodge complaints are satisfied with the company's complaint handling attempts (Michel & Meuter, 2008).

To address the relevance of SR in banking industry, the primary aim of this article is to study the association between SR, customer satisfaction and post-behavioral actions of costumers. It is hoped that this paper can: 1) contribute to the body of SR's literature by examining the relative impact of SR on customer satisfaction (CS) as well as the relationships between CS and post-behavioural intention, 2) help the customer service department's manager by applying the findings of this research in their strategic customer relationship management practices and 3) assist government and regulatory bodies to enact regulation and procedure to protect customers' rights.

## Literature review

### Service recovery

Service recovery (SR) can be defined as actions initiated by a service provider in rectifying the problem that leads to a service failure (Sheth, Sisodia & Sharma, 2000) which can affect the level of CS and customer loyalty (Karatepe, 2006). Research in this field shows that SR is a rather neglected part of service marketing and thus, more attention should be given to it (Tax, Brown & Chandrashekaran, 1998; Wirtz & McColl-Kennedy, 2010). In doing so, the operation functions of a firm would always be ready with the capacity to recover any service failure in order to ensure quality services are being provided by the firm (Prajogo & McDermott, 2008; Sousa & Voss, 2009).

The level of service quality can be measured by two dimensions; 1) the outcome or "what" the customer actually receives as part of the firm's efforts to recover and 2) the process of recovery and "how" the recovery is accomplished (Duffy, Miller & Bexley, 2006). The outcome of SR is the customer's main concern while the dimension of SR process is more internal and customer usually does not care about them (Duffy et al., 2006; Ringberg, Odekerken-Schröder & Christensen, 2007). Consequently, in order to provide appropriate response to unhappy customer, service recovery requires high level of interaction between the service provider and its customer (Casado-Díaz & Nicolau-Gonzálbeza, 2009; Kau & Loh, 2006).

### Perceived justice with service recovery

The Justice Theory (Adams, 1963) has been widely used to explain customers' reactions (satisfaction or dissatisfaction) toward a service failure. Table 1 shows the summary of literature that studied the impact of perceived justice (PJ) on CS. Overall, these studies concluded that PJ consists of three dimensions; 1) perceived distributive justice (PDJ), 2) perceived procedural justice (PPJ) and 3) perceived interactional justice (PIJ) (Chebat & Slusarczyk, 2005; Ha & Jang, 2009; Smith, Bolton & Wagner, 1999).

*Table 1: Study on the relationship between Perceived Justice, Customer Satisfaction and after Purchase Behavior*

| Authors | Industry | Notable Findings |
| --- | --- | --- |
| Komunda & Os-arenkhoe (2012) | Bank | Employee responsiveness and courtesy have a positive impact on customer evaluations. |
| Kuo & Wu (2011) | Online shopping | PDJ, PPJ and PIJ enhance post-recovery satisfaction while post-recovery satisfaction positively affects post-purchase intentions. |
| Lin & Huang. (2010) | Online retail | PDJ, PPJ and PIJ have a significant positive influence on CS. Interactional justice has a significant negative influence on negative word of mouth. |
| Ha & Jang (2009) | Restaurant | PJ with SR efforts has a positive effect on customers' future behavioural intentions. |
| Kim et al. (2009) | Hotel | The effects of PDJ on satisfaction with SR are stronger than PPJ and PIJ. |
| DeWitt et al. (2008) | Restaurant and hotel | PJ following a SR has a positive impact on trust. |
| Sparks & Fredline (2007) | Hotel | Service failure has a different impact on CS and intended loyalty than a justification. |
| Karatepe (2006) | Hotel | PIJ has a significant impact on complaint satisfaction and complaint loyalty than other types of justice. |
| Maxham et al. (2008) | Barber shop customers | Moderate to high SR efforts enhance post-failure satisfaction, purchase intent and positive word of mouth. |

### Distributive justice

Distributive justice is defined as the distribution of costs and benefits in gaining unbiased exchange in relationships (Smith et al., 1999). Distributive justice usually means that the customers are compensated during SR. The compensation can be in the form of monetary rewards (refunds for failed service), discounts, coupons, adjustments or substitutions (Lewis, 2012; Mattila, 2001; Sparks & McColl-Kennedy, 2001). Distributive justice in service is usually measured by "fairness", "need", "value" and "reward" of the given compensation (Chebat & Slusarczyk, 2005; Lin & Huang, 2010; Smith et al., 1999).

### Procedural justice

Procedural justice (PRJ) is defined as the perceived justice of policies, procedures and criteria used by service firms in achieving the outcome of a negotiation (Ok, Back, & Shanklin, 2005). In fact, PPJ is the customer's perception of fairness in various phases of procedures and processes needed to recover the failed service (Mattila, 2001). In general, literature has measured procedural justice in service by "timeliness", "promptness", "flexibility", "procedure control" and "right policy and execution" (Chebat & Slusarczyk, 2005; Kim et al., 2009; Lin & Huang, 2010).

### Interactional justice

Interactional justice is defined as the perceived fairness of interpersonal treatment that customers receive during the enactment of procedures (Tax et al., 1998). In other words, IJ is the perceived fairness of manner in which customers are treated during the process of recovery efforts such as politeness, apology or explanation (Sparks & McColl-Kennedy, 2001). According to the literature, the proper measurement for interactional justice could be "courtesy", "respect", "listening", "effort", "explanation", "empathy", "apology" and "communication" (Kuo & Wu, 2011; Lin & Huang, 2010; Mattila, 2001; Smith et al., 1999).

### Perceived justice and customer satisfaction with recovery

Customers usually feel some kind of injustice when the firm fails to deliver the service(s) as promised and consequently they would expect to receive proper compensation from the firm (Chebat & Slusarczyk, 2005). Customers usually have different perception which is based on the level and quality of the service recovery that offered by the firm. If the offer(s) meets or goes beyond the costumers' expectations, they will be either satisfied or delighted but otherwise, they will be dissatisfied if the offer(s) does not fulfill their expectations (Blodgett, Hill & Tax, 1997; Kim et al., 2009; Lai & Zhao, 2010; Lin & Huang, 2010; Schoefer & Ennew, 2005).

Significant relationship between one of the PJ dimensions and CS is always evident in many studies. Lai et al. (2010) had found that theme park visitors have positive responses when they feel there is justice in the SR. However, the number of dissatisfied tourists increases when customer service staffs are reluctant to deal with their complaints. Lii et al. (2012) had found that when customers receive appropriate SR, they experience positive disconfirmation and thus, satisfied with the recovery efforts. However, different studies find different factor as either the most or the least influential item in affecting customer satisfaction. Smith et al. (1999) discovered that PDJ has high influence on CS than the other two types of fairness. Karatepe (2006) mentioned that PIJ is the most significant determinant of CS follows by PDJ, which is consistent with Blodgett et al. (1997)'s findings. In addition, Ok et al. (2005) found that PPJ has the highest impact on recovery satisfaction in a restaurant setting followed by PDJ and PIJ.

As a conclusion, customer perceptions of PDJ, PPJ and PIJ may have positive association with customer satisfaction as the result of appropriate recovery efforts. Therefore, to test this phenomenon in Malaysian banking industry, we have developed the following hypotheses:

*H1:* Perceived distributive justice has a positive impact on customer satisfaction with the recovery.

*H2:* Perceived procedural justice has a positive impact on customer satisfaction with the recovery.

*H3:* Perceived interactional justice has a positive impact on customer satisfaction with the recovery.

### Customer satisfaction and perceived trust

High level of trust is a crucial factor to establish and maintain a long-term relationship (Garbarino & Slonim, 2003; Johnson, Sivadas & Garbarino, 2008; Krause & Ellram, 1997; Sirdeshmukh, Singh & Sabol, 2002). Trust can emerge when customers have confidence in a firm's service integrity and reliability (Garbarino & Slonim, 2003; Kim et al., 2009). In fact, long term satisfaction can strengthen the reliability of the service and cultivates trust (Tax et al., 1998) or in other word, satisfaction with SR might serve as a predictor of trust (Morrisson & Huppertz, 2010; Tax et al., 1998). Thus, to test the relationship between satisfaction and percieved trust, the following hypotesis is developed:

*H4:* Customer satisfaction has a positive impact on perceived trust.

### Customer satisfaction and word of mouth

Social exchange theory concludes that there is a link between CS and word of mouth (WOM) (Lii et al., 2012). Researches state that WOM is one of the post-purchase behaviors. Therefore, when customers are satisfied with the SR, they feel that the relationship with the firm is rewarding and the gained profit is worth more than the resources (money, time, etc.) that they have to give up (Allsop, Bassett & Hoskins, 2007). This outcome may lead costumers to positive reciprocity behavior such as spreading good WOM about the firm (Kassim & Abdullah, 2010; Maxham et al., 2008). To test the relationship between CS from SR and spreading good WOM the following hypothesis is developed:

*H5:* Customer satisfaction has a positive impact on word of mouth.

However based on the model and theoretical supports, it shows that the relationship in the model cannot be limited to direct relationship. There is a possibility of indirect interactions between the variables in the model, especially the mediation role of customer satisfaction on the relationship of PDJ, PPJ and PIJ from one side and perceived trust and WOM from the other side. Therefore, to test these associations, the following hypotheses are developed:

*H6:* Customer satisfaction mediates the relationship between service recovery's components and perceived trust.

*H7:* Customer satisfaction mediates the relationship between service recovery's components and word of mouth.
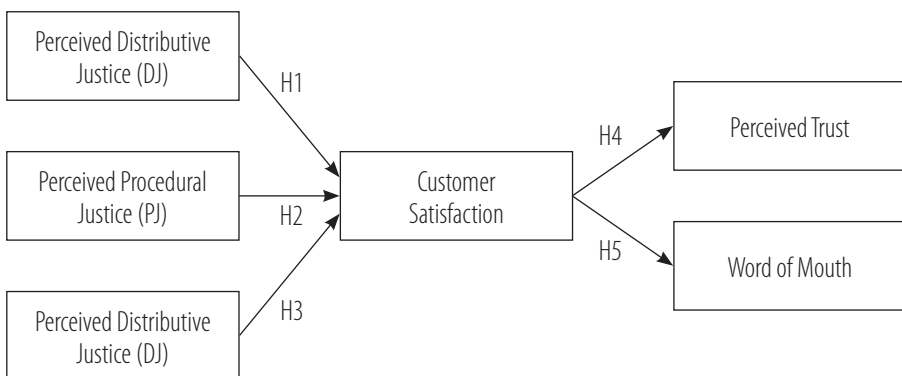


*Figure 1. Proposed research framework*

## Research methodology

To test the model of this study, 370 self-report questionnaires were distributed. Samples were collected by applying convenience sampling method. The participants are above 18 years old and have previous unsatisfactory service experience. 357 questionnaires were collected from the participants. However, due to some missing answers, only 322 samples were included in the final analyses.

The questionnaire consists of two parts. First section uses a five Likert scale (1- strongly disagree and 5 strongly disagree) to measure the perceptions, level of satisfaction, loyalty and degree of good word of mouth. The second section focuses on the demographic data of the participants such as age, gender, marital status and race.

## Data analysis

The result shows that 56.2% of participants are male and 43.8% are female. Around 20% are aged 18-23, 33% are aged 24-29, 21% are aged 30-35, and 25% are above 36 years. In terms of ethnic background, about 49% of participants are Malay, 38.5% are Chinese, 10.2% are Indian, and 2.5% are from other races (see Table 2).

*Table 2. Demographic information of participants*

|  |  | Frequency | Percent |  |  | Frequency | Percent |
|---|---|---|---|---|---|---|---|
| Gender | Male | 181 | 56.2 | Status | Single | 240 | 74.5 |
|  | Female | 141 | 43.8 |  | Married | 82 | 25.5 |
| Age | 18–23 | 63 | 19.6 | Race | Malay | 157 | 48.8 |
|  | 24–29 | 106 | 32.9 |  | Chinese | 124 | 38.5 |
|  | 30–35 | 69 | 21.4 |  | Indian | 33 | 10.2 |
|  | 36–41 | 53 | 16.5 |  |  |  |  |
|  | 42 or above | 31 | 9.6 |  | Others | 8 | 2.5 |

The reliability of the measurement instrument is defined in term of its ability to consistently measure the specified phenomenon (Hair et al., 2011; Ho, 2006; Sekaran, 2006). Table 3 shows the results of reliability test for

the current study. Literature recommends using different benchmark ranges to judge the adequacy of reliability coefficients, which ranges from .50 to .90 (e.g., DeVellis, 2003; Helms, 2007; Nunnally & Nunnally, 1970; Streiner, 2003).

The results have indicated that Cronbach's alphas for all variables are more than .70. Moreover, Composite Reliability (CR) and Average Variance Extracted (AVE) show that the measurement of this study meet the minimum threshold as the CR of all constructs are more than .7 and the AVE is more than .5 (Hair, Black, Babin & Anderson, 2010). Therefore, the results have fulfilled the minimum requirement and considered as satisfactory for the purpose of this study (see Table 3).

*Table 3. Reliability analysis*

| Variables | CR | AVE | Cronbach's alpha |
|---|---|---|---|
| PDJ | 0.866 | 0.683 | 0.757 |
| PPJ | 0.832 | 0.622 | 0.702 |
| PIJ | 0.834 | 0.628 | 0.726 |
| Customer satisfaction | 0.825 | 0.612 | 0.745 |
| PT | 0.803 | 0.578 | 0.718 |
| WOM | 0.849 | 0.652 | 0.790 |

The results of SEM show that the structural model is fit as RMR= .027, GFI= .966, CFI=.933, NFI .933 and CMIN/DF=6.25 meet the minimum requirements that is suggested by various studies (Hair et al., 2010). The results in Table 4 show that H1 (p-value=.0001 β= .326), H2 (p-value=.0001, β= .139), and H3 (p-value=.0001, β= .362) are supported as all p-values are less than .05. Moreover, these results indicate that PIJ has the highest influence on customer satisfaction follows by PDJ and PPJ. Current results also show that customer satisfaction has positive and significant relationship with perceive trust, H4 (p-value=.0001, β= .35), and WOM, H5 (p-value=.0001, β= .325).

*Table 4. Regression estimate results*

| | | | Estimate | S.E. | C.R. | P |
|---|---|---|---|---|---|---|
| Satisfaction | ← | PDJ | .236 | .038 | 6.231 | .001 |
| Satisfaction | ← | PPJ | .139 | .039 | 3.553 | .001 |
| Satisfaction | ← | PIJ | .362 | .036 | 9.953 | .001 |
| PT | ← | Satisfaction | .325 | .069 | 4.705 | .001 |
| WOM | ← | Satisfaction | .350 | .077 | 4.554 | .001 |

To test the mediation effect of satisfaction on the relationship between PDJ, PPJ, PIJ and WOM as well as the mediation effect of customer satisfaction on the relationship between PDJ, PPJ, PIJ and perceived trust, bootstrap is being run for 10,000 times by AMOS software. The results show that the first assumption of Baron and Kenny (1986) is met since there is a direct relationship between PDJ, PIJ and PPJ with WOM, and PIJ and PPJ with PT. However the first assumption of mediation effect of customer satisfaction on relationship between PT and PDJ is not met as p-value is more that .05 (p-value = .761) (see Table 5).

*Table 5. Direct effects between dependent variable and independent variables*

|  | PDJ p-value | PIJ p-value | PPJ p-value |
|---|---|---|---|
| WOM | .000 | .000 | .001 |
| PT | .761 | .000 | .008 |

Secondly, mediator variable is added to the model and bootstrap test is being rerun for 10,000 times. The results in Table 6 show that customer satisfaction has a significant mediation role on the relationship between PDJ, PIJ, PPJ and WOM (Total Effects p-values<.05). Thus, according to these results, customer satisfaction does mediate the relationship between PIJ, PPJ and PT (Total Effects p-values<.05).

Moreover the results show that customer satisfaction fully mediate the relationship between PIJ and WOM, PPJ and PT as the p-value of the direct relationship is more than .5 ( P-value $_{PIJ\&WOM}$ =.095 and p-value $_{PPJ\&PT}$ =.077). Therefore, the results indicate that customer satisfaction partially mediate the following relationships; PDJ with WOM (p-value $_{PDJ\&WOM}$ =.045), PPJ with WOM (p-value $_{PPJ\& WOM}$ =.009) and PIJ with PT (p-value $_{PIJ\& PT}$ =.0001).

*Table 6. Bootstrap result of mediation test*

| Total Effects |  |  |  |
|---|---|---|---|
|  | PDJ-p-value | PIJ-p-value | PPJ-p-value |
| Satisfaction | .000 | .000 | .000 |
| WOM | .000 | .000 | .001 |
| PT | .761 | .000 | .008 |
| Indirect Effects |  |  |  |
|  | PDJ-p-value | PIJ-p-value | PPJ-p-value |
| Satisfaction | ... | ... | ... |
| WOM | .000 | .000 | .000 |
| PT | .000 | .000 | .000 |

| Direct Effects | | | |
|---|---|---|---|
| | PDJ-p-value | PIJ-p-value | PPJ-p-value |
| Satisfaction | .000 | .000 | .000 |
| WOM | .045 | .094 | .009 |
| PT | .201 | .000 | .077 |

## Discussion and conclusions

The main aim of this article is to expand the SR knowledge by studying the relative impact of SR on CS and the relationships between CS and post-behavioural intention (perceived trust and word of mouth) in Malaysian banking environment.

The empirical results of the relationships between PJ with SR, SC, perceived trust and WOM have proven that all hypothesizes for direct relationships are accepted. The impact of PIJ on CS appears to be stronger compares to PPJ or PDJ and it is consistent with the prior findings (for example, Blodgett et al., 1997; Karatepe, 2006). Apart from that, the study's findings also support the previous studies' findings (for example, Garbarino & Slonim, 2003; Tax et al., 1998) which indicate positive effect of CS on perceived trust as well as its role on mediating the relationship between SR and after purchase behavior.

In the banking industry, establishing long-term relationship with valuable customers is only possible by creating trust among the customers in the bank. The trust is gained through satisfactory SR that leads to increase customers' confidence toward the bank. Therefore, in order to have an effective recovery mechanism, banks' managers should concentrate on all of the three PJ dimensions of SR: 1) reasonable compensation for unhappy customers (PJD), 2) clear and accurate recovery procedures to recover the service failure (PPJ) and 3) staff–customer communication (PIJ).

To increase PDJ, banks should develop specific procedures and guidelines to help service counter staffs and branch managers to recover service failure such as waving the service fees for the failed transaction due to bank's mistake. In as such, training programs should also design to develop accurate and comprehensive procedures to address the customers' complaints quickly and solve the issues in acceptable timeframe.

Furthermore, the front-line staffs, at certain level, should be empowered to address the customers' complaints quickly and to provide appropriate recovery service. It is crucial for banks to provide clear SR procedure handbook for their staffs and determine the level of authority and person in charge, in order to handle customers' complaints promptly, by showing their empathy and compassion and offering apologies to their frustrated customers.

The study develops a conceptual model that can address the relationship between SR, customer satisfaction and post-behavior intention in the bank industry. However, generalization cannot be made based on the result of this study. It is because the sampling of this study is non-probability and limited to the central region of Malaysia. Moreover, this study uses cross-sectional method and cannot measure the actual behavior of participants after receiving the particular SR by the firm. Therefore, it is advisable that future studies should test the proposed model with larger number of samples and in wider geographical area. In addition, to examine the robustness of the proposed model, it is also advisable that future studies test the model in different public and private sectors of service industry such as hospitality, education and health care.

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