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# Remedy or Cure for Service Failure? Effects of Service Recovery on Customer Satisfaction and Loyalty

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## STRUCTURED ABSTRACT

**Purpose:** This paper aims to contribute to a growing body of service recovery knowledge by examining the relationship between service recovery, consumer satisfaction and loyalty in a commercial banking environment.

**Design/methodology/approach:** A conceptual framework encompassing the concepts of service recovery, communication, customer satisfaction and customer loyalty in the commercial bank setting is developed. A questionnaire is designed to focus on issues related to efforts made to investigate causes of service failure and to develop recovery strategies that meet customer expectations of how their banks should handle such problems.

**Findings:** Results show that communication had a significant relationship with service recovery and that higher levels of redress independently increase positive consumer responses. The findings also show that the interaction of employee responsiveness and courtesy can also have a positive impact on consumer evaluations. Satisfaction was highest and negative word-of-mouth intentions lowest only under conditions of high responsiveness and courtesy.

**Research limitations/implications:** Service recovery is process-oriented, and does not assess whether the reported problem that led to the actual complaint has actually been resolved. This aspect of the study opens a number of directions for future research with the goal of increasing the still limited understanding of Service Recovery issues in commercial banks. To achieve an indepth view, a more comprehensive qualitative study that pursues the same research questions may be appropriate.

**Practical implications & Originality:** An implication is that, when managing complaints related to customer dissatisfaction, the approaches undertaken by service quality leaders should aim to provide just resolutions/fairness in service recovery. This study also provides insight into a company's customer relationship management practices. However, in order to encourage customers to complain directly, a company needs to enhance the perception of a possible outcome if complained to. A conceptual framework is developed and used to investigate the relationship between service recovery, consumer satisfaction and loyalty

**Keywords:** service recovery, customer satisfaction, customer loyalty

## Research Paper

## INTRODUCTION

As the importance of service quality, as both a marketing strategy and competitive advantage, gains more and more recognition, efforts to recover from poor service delivery are receiving increased attention in extant literature (Boshoff, 1997; Swanson & Kelley, 2001; Hocutt et al.,

2006; Morrisson & Huppertz, 2010). Yet, much of the literature, according to Boshoff (1997), is based on anecdotal accounts rather than theoretical conceptualizations or rigorous empirical assessment. If allowed to continue, poor service delivery threatens the long-term survival of the firm (Michel & Meuter, 2008; Seawright et al., 2008; Thwaites & Williams, 2006; Magnini & Ford, 2004). In other words, if service firms do not manage service recovery properly, it could harm their long-term success prospects. When firms carry out effective complaint handling, this can have a great impact on customer retention rates, deflect the spread of damaging word of mouth, and improve bottom-line performance (Morrisson & Huppertz, 2010). When customer complaints are well-resolved and the relationship between the firm and the customer is improved, this can lead to improvement in terms of customer satisfaction, trust and commitment to the firm (Singh and Sirdeshmukh 2000; Sirdeshmukh et al., 2002; Morgan & Hunt, 1994; Weun et al., 2004; Pina e Cunha et al., 2009).

Customer loyalty is critical to conducting business in today's competitive marketplace, and banks are no exception. Thus commercial banks have embarked on different management strategies to promote customer loyalty (Bahia & Nantel, 2000; Jamal & Naser, 2002). Loyalty refers to a deeply held commitment to re-buy or repatronize a preferred product or service consistently in the future (Oliver et al., 1997; Bae Suk et al., 2009). A loyal customer feels an obligation to persevere with a personal relationship through good and bad times (Reynolds & Arnold, 2000). The central theme that runs through customer loyalty relates to the proportion of expenditure devoted to a specific brand or store (Gee et al., 2008). In other words, customer loyalty is a situation where repeat purchase behaviour is accompanied by a psychological bond and repeat purchase intentions and behaviours.

Loyal customers help promote business by providing strong word of mouth, creating business referrals, providing references, and/or serving on advisory boards (Reichheld, 2003). Moreover, loyal customers serve as a fantastic marketing force by providing recommendations and spreading positive word of mouth: those partnership-like activities are the best advertising a company can get (Johnston and Michel, 2008). The company can realize economic benefits from positive word of mouth (WOM) and loyalty is linked to company growth (Riechheld, 2003). However, service failures are inevitable and occur in both the process and the outcome of service delivery. They include situations when the service fails to live up to the customer's expectations (Michel, Bowen and Johnston, 2009 and Johnston & Michel, 2008).

Service failures have been categorized as failure of the core service (service provider error), such as failure to get one's money from an ATM, or product and policy failures as attributable to the organization or the customers. There are various consequences of service failures, namely: dissatisfaction, a decline in customer confidence, negative word-of-mouth behaviour, customer defection (Miller et al., 2000; Tronvoll, 2010), loss of revenue and increased costs, or a decrease in employee morale and performance. Service recovery has to do with "those actions designed to resolve problems, alter negative attitudes of dissatisfied customers and to ultimately retain these customers" (Miller et al., 2000, p. 38), includes "situations in which a service failure occurs but no complaint is lodged by the customers," and has been expressed as seeking out and dealing with service failures (Smith et al., 1999, p. 359). The "seeking out" part of this distinguishes service recovery from complaint handling, as many dissatisfied customers do not complain (Michel et al., 2009).

Successful service recovery can enhance customers' perceptions of the quality of the service and the organization, lead to positive word-of-mouth communication, enhance customer satisfaction, and build customer relationships and customer loyalty (Michel, Bowen and

Johnston, 2009). However, the degree of success may depend on the type of service involved, the type of failure (McDougall & Levesque, 1999) that occurred, and the speed of response. Service recovery can also be poor or ineffective, with the consequence that the customer feels let down a second time (failure in recovery). This may lead to loss of confidence in the organization and possible defection, together with the spread of negative word-of-mouth communication.

Fewer than 50% of complainants receive a reply, and those who do often view the organization's response as unsatisfactory, with slow responsiveness and rudeness Andeassen (2001). Only 30% of customers who lodge complaints with a company are happy with the company's complaint handling efforts (Michel & Meuter, 2008). Unresolved complaints may lead to a double deviation effect, depending on the expectations complainants have of the role of the service providers (Karatepe & Ekiz, 2004). Complainants may attempt to get even by engaging in negative WOM behaviour, or stop buying and warning others not to shop there (Tronvoll, 2010), leading to disloyalty. Customers with complaints get angrier when they are ignored, regret that their time was wasted, may feel guilty about complaining, and may have to fight to make themselves heard (Varela-Neira et al, 2010). According to Boshoff (1997, p. 112), retail studies (Brown et al., 1996; Lewis & Spyropoulos, 2001) have shown that more than 70% of customers who complain can be persuaded to continue shopping with the offending retailer, provided that some effort is made to recover.

The majority of the customer dissatisfaction and consumer complaint literature has studied why and how consumers respond to dissatisfaction with goods. Apart from the work done by Andreasen (1999, 2000); Sousa and Voss (2009); Morrisson and Huppertz (2010), less attention has been devoted to the effects of service recovery on consumer satisfaction and customer loyalty. Moreover, little is known about which strategies to employ or how these strategies interact to influence customer perceptions and attitudes, especially in a services environment. Thus this paper aims to contribute to a growing body of service recovery knowledge by examining the relationship between service recovery, consumer satisfaction and loyalty, in addition to its well-accepted role as a relationship-enhancing tool, in a commercial banking environment. The following hypotheses will be tested:

- H1. Service recovery has a positive effect on customer loyalty
- H2. Communication has a positive effect on customer loyalty.
- H3. Service recovery has a positive effect on customer satisfaction.
- H4. Customer satisfaction and service recovery have a positive effect on loyalty behaviour.

## **LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK**

### **Service recovery**

In recent years, extant literature has devoted efforts to service recovery. Contributions include both theoretical modelling and empirical assessments. Morrisson and Huppertz (2010), for example, extend research on customer loyalty status, external equity, and satisfaction with service recovery. Johnston (1998) and Davidow (2003), on the other hand, have offered fairly extensive reviews of service recovery's multi-dimensional nature. Furthermore, Bhandari et al. (2007) offer a multi-dimensional approach to evaluating service recovery, suggesting that managing service recovery should be undertaken in a similar fashion to managing any service, and thus managers need to understand customers' recovery expectations. Others have modelled both the antecedents (Seawright et al. 2008; Swanson & Kelly, 2001) and the outcomes of service recovery (Andreasen, 1999; Levesque & McDougall, 2000; Bougie et al., 2003) from a theoretical perspective (McColl-Kennedy & Sparks, 2003) and an empirical

perspective (McCollough et al., 2000). These studies analysed service recovery from a variety of different angles, including organizational responses to service recovery (Davidow, 2003), the relationship between satisfaction with service recovery and cumulative satisfaction (McCollough et al., 2000), why certain people do not complain (Stephens & Gwinner, 1998), the influence of the competitive environment on service firms' recovery efforts (Estelami, 2000), the mediating role of anger in the relationship between service encounter dissatisfaction and customers' behavioural intentions (Bougie et al., 2003), the role of fairness theory, equity theory and justice (de Ruyter & Wetzels, 2000a; McColl-Kennedy & Sparks, 2003), the relationship between service-recovery perceptions of justice (Saxby et al., 2000; Blodgett et al., 2001), and the impact of relationship factors on satisfaction with service performance after recovery (Hess et al., 2003). A common theme in all service recovery articles is that customers must be satisfied with the firm's recovery efforts (Tax et al., 1998). If not, many negative outcomes will result, including lost sales, negative word of mouth and defections (Andreassen, 1999; McCollough et al., 2000; Tronvoll, 2010).

According to Sheth, Sisodia and Sharma (2000), service recovery refers to actions taken by a service provider in an attempt to resolve the problem that caused a service failure. Effective service recovery results in complainant satisfaction and recovery (Karatepe & Ekiz, 2004; Bolton, 1998; Ndubisi & Ling, 2005). A growing number of researchers have identified service recovery as a rather neglected aspect of service marketing and one that warrants much greater attention (Andreassen, 1999; Tax et al., 1998), Kim et al. (2003). The capacity to effectively recover from failures is a key responsibility of the operations function (Miller et al., 2000; Prajogo, 2006; Roth & Menor, 2003). Specifically, understanding the impact of service recovery on customer loyalty has important implications for the design of the service delivery and recovery systems (Miller et al., 2000), for example, determining how much to invest in delivering reliable service (i.e. problem prevention) vis-à-vis providing superior recovery when problems occur (Parasuraman, 2006).

The need for a systematic approach for dealing with customer dissatisfaction and complaints is implied in the definition of planned service recovery given by Bell and Luddington (2006): "a thought-out, planned, process for returning aggrieved customers to a state of satisfaction with the organisation after a service or product has failed to live up to expectations." Service recovery has an outcome dimension (Duffy et al., 2006), which is *what* the customer actually receives as part of the firm's efforts to recover, whereas the process dimension of service recovery is concerned with *how* recovery is achieved. Bunker and Bradley (2007) and Duffy et al. (2006) suggest that the outcome dimension is more important when the original service is delivered, but the importance of the process dimension is accentuated in service recovery. However, this may depend on the service being looked at. According to Kau and Loh (2006), service recovery involves interaction between a service provider and a customer, a shortfall in the provision of the original service, a response on the part of the provider to the service shortfall, and a desired result, to turn a dissatisfied customer into a satisfied one. A good service recovery system will also detect and solve problems, prevent dissatisfaction, and be designed to encourage complaints.

In seeking redress, if a company creates a failure situation and then does not recover effectively, customers will be especially negative because of the "double deviation" of two failures in a row (McCollough et al. 2000; Magnini and Ford, 2004). In addition, service recovery may be seen as critical for customer satisfaction and evolution of a firm's quality performance. Spreng et al. (1995) found that service recovery performance influenced overall satisfaction and behavioural intentions such as word-of-mouth communications and repurchase and likelihood to repurchase when the customer's complaints were dealt with

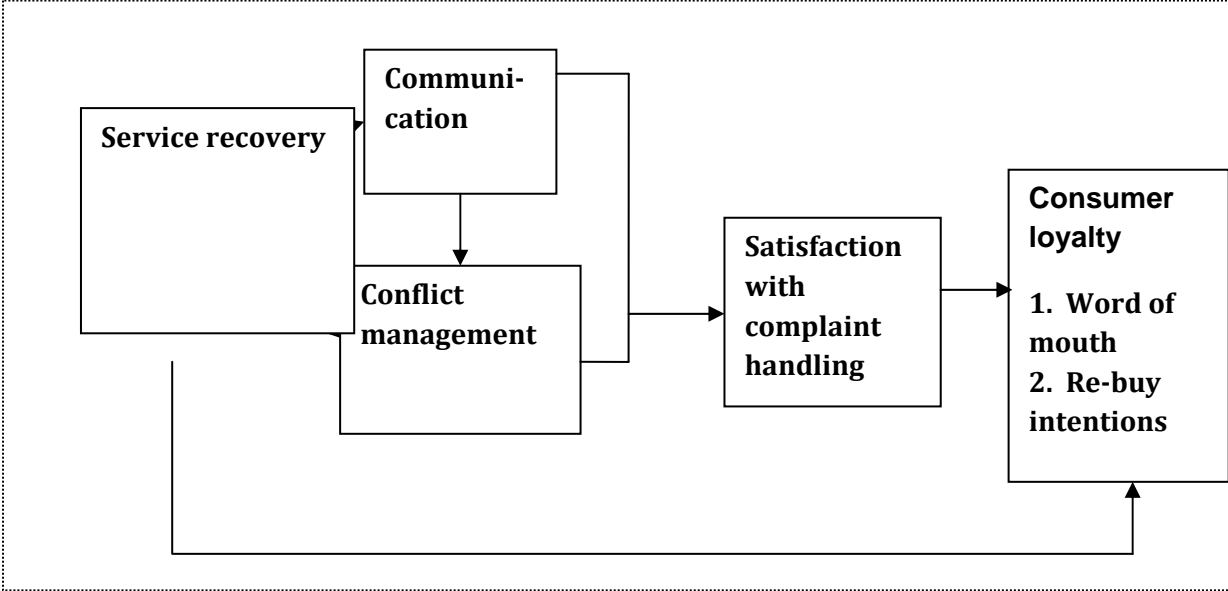
satisfactorily. Further evidence of satisfactory problem resolution resulting in enhanced repurchase intentions means that strong service recovery may enhance customer loyalty, a conclusion supported by McCollough, Berry & Yadav (2000).

**Satisfaction and loyalty**

Loyalty and satisfaction are related, although also clearly distinct. Morrisson and Huppertz (2010 ) and Sousa and Voss (2009), in their studies, consider several conceptual bases for this distinction, but, in general, higher satisfaction has been proposed to be related to higher loyalty. As has been hypothesized and borne out in the marketing literature (Morgan & Hunt, 1994; Singh and Sirdeshmukh 2000; Sirdeshmukh et al., 2002; Weun et al., 2004; Pina e Cunha et al., 2009), trust is logically and experientially a critical variable in relationships. Those who are not willing to trust a vendor in a competitive marketplace are unlikely to be loyal. The importance of trust in explaining loyalty is also supported by Chaudhuri and Holbrook (2001), Singh and Sirdeshmukh (2000), Sirdeshmukh et al. (2002) and Rod and Ashill (2010),

Trust is sometimes conceived of, as pointed out by Rod and Ashill (2010), as having two components: performance or credibility trust and benevolence trust. In a business-to-business context, Rod and Ashill found strong effects for credibility trust on relationship commitment but not for benevolence trust. He argued that this was because businesses base their purchase and selling decisions much more on performance issues. Clearly, performance or credibility trust is important in business-to-consumer relationships as well. Other authors have also suggested the existence of an effect for credibility trust on loyalty (Chaudhuri & Holbrook, 2001; Morrisson and Huppertz, 2010). A schematic representation of the conceptual framework used to operationalize the research questions in our study is presented below.

Figure 1: A conceptual framework



**Conflict handling**

Conflict handling refers to a supplier's ability to avoid potential conflicts, solve manifest conflicts before they create problems, and discuss solutions openly when problems do arise (Michel, Bowen and Johnston, 2009). How well the conflict and dissatisfaction is handled determines whether the outcome is loyalty, “exit” i.e. withdraw from the relationship or

“voice” i.e. attempt to repair or improve the relationship through communication of the complaint, grievance or proposal for change (Colgate & Norris, 2001). Customer loyalty has generally been described as occurring when customers repeatedly purchase a good or service over time, or have a favourable attitude towards a good/service, or company, and is crucial to the success of business organizations (Oh, 2006; Ndubisi & Ling, 2005; Augusto de Matos, 2009). According to Thwaites and Williams (2006), attracting new customers costs five times more than retaining existing customers, and a customer who has had a conflict resolved by a company will tell about five people. Dissatisfied customers may tell 10 to 20 people about their bad experience (Thwaites & Williams, 2006; Reichheld, 2003; Sousa and Voss, 2009; Morrisson and Huppertz, 2010). Mistakes, failures and conflicts are frequent occurrences in service encounters (Babakus et al., 2003); resolving conflicts turns dissatisfied customers into satisfied loyal ones. Effective service recovery leads to complainant’s satisfaction and loyalty (Oh, 2006). The likelihood of these behaviours in individual cases depends on the degree of prior satisfaction with the relationship, the magnitude of the customer's investment in the relationship, and an evaluation of the alternatives available. Ndubisi and Ling (2005) found a significant relationship between conflict handling and customer loyalty, indirectly through trust and perceived relationship quality. The ability of a product or service provider to handle conflict well also directly influences customer loyalty.

### **Communication**

According to Ball et al. (2004), communication may refer to written communications such as personalized letters, direct mail, website interactions, other machine-mediated interactions, and e-mail, as well as in-person communication with service personnel before, during and after service transactions. In these forms of communication, “good” is defined as helpful, positive, timely, useful, easy, and pleasant (Ball et al., 2004; Michel & Meuter, 2008). The service provider, in short, provides information in such a way that the customer personally benefits with a minimum of effort necessary to decode the communication and determine its utility. Such communication is often personalized or delivered in a person-to-person format such as word of mouth (WOM). Word of mouth refers to the informal communication between consumers about the characteristics of a business or a product. WOM provides consumers with information about a firm that assists them in deciding whether they should patronize that firm (Grönroos, 1990; Hocutt et al., 2006). Blodgett et al. (2001) confirmed that interactional justice had large impact on WOM intentions. As such, satisfaction with service recovery should encourage positive WOM communication. Furthermore, Michel, S. & Meuter, M.L. (2008) and Fundin and Bergman (2003) explicitly consider the construct “customer dialogue” as a two-way means of communication, which is a useful way to conceptualize communication. In general, good communication should affect all aspects of the relationship, satisfaction and loyalty. Direct impacts from communication on satisfaction and loyalty were therefore considered (Halstead, 2002). This is an approach in which customer dialogue is seen as an endogenous variable that is explained by customer satisfaction.

### **Customer satisfaction**

Satisfaction is the consumer’s fulfillment response (Andreassen, 2000). It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, and includes levels of under- or over fulfillment (Tronvoll, 2010). From the above definitions, it is understood that satisfaction

relates to a subjective evaluation of emotions. Satisfaction occurs as a function of disconfirmation and relative output to input. The end-result is a positive or negative feeling of fulfillment. Satisfaction can therefore be considered the consumer's evaluation of the product or service received. The importance of such customer evaluations comes from the impact that satisfaction is posited to have on consumer behaviours such as loyalty. Independent of theoretical platform, it has become a truism today that service quality is key to customer satisfaction (Bae Suk et al., 2009). However, few if any companies manage to deliver services of expected quality all the time, resulting in negative disconfirmation of expectations or the perception of inequity. Companies may respond to the service failure independent of customer reactions or as a direct function of customer complaints (Breitsohl, 2010). Service recovery refers to the actions a supplier takes to seek out dissatisfaction and in response to poor service quality, i.e. service failure (Andreassen, 2000). In the literature, the construct of loyalty is divided into behavioural, cognitive and affective elements (Augusto de Matos, 2009). Behavioural loyalty is the purchase behaviour actually displayed by the customer; cognitive loyalty relates to the intentions of future behaviour expressed by the customer; and affective loyalty defines the attitude of the customer to the company.

Finally, satisfaction is only of value to firms if it elicits some kind of positive financial outcome. The service management literature suggests that profitability and growth are largely determined by loyalty, and that behavioural loyalty itself is a direct result of customer satisfaction. In each reporting period, a firm's market share comes from three sources. Firstly, those customers who switch to the company from other firms; secondly, new customers to the market who choose the company for their initial purchase; and, thirdly, those customers retained by the company from the previous time period (Morrisson & Huppertz, 2010). Service recovery also facilitates the tracking of failures and the development of databases, to gain insight into failures in order to deal with them and try to prevent them from happening again. Other advantages of a good service recovery system are: increased opportunities for cross-selling to retained customers (Bae Suk et al. 2009), the reduction of perceived risk for new customers, and enhancement of company image for both its employees and customers. Service failure is determined by elements such as the nature of the service encounter, the cause of the problem, and the psychographics of the individuals involved (Du et al. 2010). It is defined from the customers' perspective because what a company needs to recover from is dissatisfaction or problems that a customer perceives in relation to a service or a service provider, regardless of the cause.

### **Customer loyalty**

A common approach in defining customer loyalty is to distinguish between a consumer's behavioural loyalty and attitudinal loyalty (Parasuraman et al., 2005; Chaudhuri & Holbrook, 2001). Behavioural loyalty is expressed as repeated transactions (or percentage of total transactions in the category, or total expenditures in the category) and can sometimes be measured quite simply with observational techniques. Attitudinal loyalty is often defined as positive affect toward both continuance of the relationship and the desire to remain in the relationship, and is sometimes defined as equivalent to relationship commitment (Rod and Ashill, 2010; Bugg et al., 2009). Attitudinal loyalty is measured by questionnaire methods. Behavioural loyalty is highly prized, because it means sales. Attitudinal loyalty is also highly prized, because behavioural and attitudinal loyalty are highly intertwined: repeated purchases lead to positive affect, which leads to conative loyalty, i.e. high levels of involvement and



intention to continue repurchasing (Oliver et al., 1997; Turner & Wilson, 2006). We may consider both affective and conative loyalty to be kinds of attitudinal loyalty. Strong attitudinal loyalty makes customers more resistant to attempts by other marketers to steal them away (Boshoff, 2005) and more resistant to counter-persuasion or to searching for alternatives.

Customer loyalty is critical to conducting business in today's competitive marketplace, and the bank setting is no exception. Researchers argue that there must be a strong attitudinal commitment to a brand for true loyalty to exist (Reichheld, 1996). This is seen as taking the form of a consistently favourable set of stated beliefs towards the brand purchased. Such attitudes may be measured by asking people how much they like the brand, feel committed to it, will recommend it to others, and have positive beliefs and feelings about it – relative to competing brands. The strength of these attitudes is the key predictor of a brand's purchase and repeat patronage. In other words, loyalty depicts the extent to which a customer regards him/herself as loyal, the customer's willingness to recommend the bank to others, and his/her intention to continue to use the bank in the future.

Oliver et al. (1997) define customer loyalty as: “A deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing despite situational influences and marketing efforts having the potential to cause switching behaviour.” Turner and Wilson (2006) have shown that attitudinally loyal customers are much less susceptible to negative information about the brand than non-loyal customers. Also, when loyalty to a brand increases, the revenue stream from loyal customers becomes more predictable and can become considerable over time (Augusto de Matos, 2009). Realistically, firms cannot completely eliminate the possibility of service failures (Weun, Beatty and Jones, 2004).

However, what separates successful firms from others may be the manner in which the firms recover from service failure. Considerable evidence indicates that recovering effectively from service failures contributes to positive customer evaluations of firms. Responding effectively to consumer complaints can have a dramatic impact on repatronage intentions and the spread of word of mouth (Swanson & Kelley, 2001; Halstead, 2002). Consequently, conflict handling has been recognized as a critical task for service managers.

## **METHODOLOGY**

The importance of companies investigating the causes of service failure and developing recovery strategies that meet customer expectations of how the companies should handle such problems is emphasized in extant literature. The questionnaire used in our study (see Appendix 1) was designed to capture the items necessary to address the research hypotheses, thus the customers' feelings, beliefs and attitudes about how the service failures they encountered were handled by the banks. The questions focused on issues like: What should the content of service recovery be? What does the customer expect a service firm to do to deal with service problems? Do customer expectations for service recovery include: Receiving an apology for the fact that the customer is inconvenienced? Being offered a “fair fix” for the problem? Being treated in a way that shows that the company cares about solving the problem encountered by customers in service delivery

system, and about the customer's inconvenience? And being offered value-added atonement for the inconvenience? (See Appendix 1.)

A pilot version of the survey instrument was designed and tested for ambiguities and comprehension. Various changes were then incorporated into the final version. The final questionnaire consisted of three sections. The first section contained questions regarding demographic characteristics of the respondents such as gender, age, education and gross income per month. In the second section, respondents were asked to recall an unsatisfactory purchase experience within the last 12 months. They were asked about the service and to specify any complaint actions they had taken in response to their dissatisfaction. A five-point Likert scale ranging from *strongly agrees* to *strongly disagree* was adopted for questions regarding service recovery, communication, conflict handling, customer satisfaction and customer loyalty. Structured and unstructured questions were filled in by the respondents selected to participate in the study. A questionnaire was used because questionnaires cover a large number of respondents in a relatively short time and reliable data can be generated since the questions asked can be answered at the respondents' convenience. Interviews with customers in various banks were also carried out, and followed an interview guide. The customers were interviewed individually and encouraged to speak freely about the research topic in order to get the fullest descriptions of their experiences.

### **Data collection**

A systematic sampling procedure was employed to ensure that the sample included different demographic and socio-economic groups. The survey was carried out at Makerere University Business School in Kampala, Uganda. It encompasses 120 staff and students at the Business School. The people surveyed are customers of, among others, Housing Finance Bank, Stanbic Bank, Diamond Trust Bank and Centenary Bank, through which their wages are also paid. The researchers approached every fifth person (staff members and MBA students) who entered the main building until a sample of 120 had been reached. A similar sampling procedure was employed at the respective branches of the banks, where an additional 120 respondents participated in the survey. The sample size complied with the directive stipulated by Krejcie and Morgan (1970). Human resources managers at the banks in question (Housing Finance Bank, Stanbic Bank, Diamond trust Bank and Centenary Bank) were contacted to obtain permission to interview their customers. Potential respondents were approached and asked if they would like to participate. Those that agreed were given the questionnaire. Interviews lasting about ten minutes were conducted with the respondents as well. The aim of the interviews (see interview guide, Appendix 1) was to give them the opportunity to express their feelings, beliefs and attitudes regarding the research questions. The interviews were taped and the interviewer took notes as well.

### **Data analysis**

After the data was collected, it was reviewed by the authors to ensure that every question was answered. The data gathered from the customer survey (data capturing attitudinal loyalty and customer satisfaction) and the bank's database (data capturing customer behaviours), and data on communication and conflict handling were entered into a database and then analysed using the Statistical Package for the Social Sciences (SPSS). Validity and reliability tests were conducted, and the data from the reliable instruments was entered in the SPSS package. Frequencies and percentages were used to compare the responses. Factor analysis and Pearson's correlation coefficient were used to test relationships between the variables, and to test the research objectives against the relationships between the variables. Regression

analysis was used to identify strong predictors of customer loyalty, using both behavioural and attitudinal variables, and to establish the contribution.

**Reliability estimates:** Reliability was assessed by Cronbach's alpha, and all scales showed values above 0.60: with customer loyalty at 0.8700; customer satisfaction 0.6084; service recovery 0.7857; communication 0.6000; and conflict handling at 0.5777. Since the reliability estimates exceeded 0.60, the lower limit of acceptability, this suggests a high level of reliability. The internal consistency reliability of the measures was analysed using Cronbach's alpha coefficients. Regression analysis was used to test for relationships.

## FINDINGS

<b>CORRELATIONS</b>							
	1	2	3	4	5	6	7
Service recovery	1						
Communication	0.731**	1					
Satisfaction	0.647(**)	0.700(**)	1				
Conflict handling	0.587(**)	0.576(**)	0.664(**)	1			
Customer loyalty	0.641(**)	0.775(**)	0.545(**)	0.557(**)	1		
<b>REGRESSION</b>							
MODEL SUMMARY							
MODEL	<b>R</b>	<b>R<sup>2</sup></b>	<b>Adjusted R<sup>2</sup></b>	<b>Std. Error of the Estimate</b>			
1	0.793(a)	0.629	0.570	6.1075			
ANOVA (b)							
MODEL	Sum of squares	<b>df</b>	Mean square	F	Sig.		
Regression	1584.136	<b>4</b>	396.034	10.617	0.000		
Residual	932.531	<b>25</b>	37.301				
Total	2516.667	<b>29</b>					
<b>COEFFICIENTS</b>							

Model	B	Standard error	Beta	T	Sig.		
Contant	-0.389	<b>8.444</b>	-0.046		0.964		
Tot. Serv. Recover	0.278	<b>0.401</b>	0.123	0.693	0.494		
.comm	1.209	<b>0.301</b>	0.659	3.314	0.003		
Total sat	0.224	<b>0.335</b>	-0.122	-0.031	0.534		
Conflict handling	0.475	<b>0.446</b>	0.181	1.065	0.297		
Dependent variable	Loyalty						

**H1.** Communication has a positive effect on service recovery.

The findings indicated that communication has a significant relationship with service recovery at  $r=0.731^{**}$ ;  $P$  value $<0.01$ .

**H2.** Customer satisfaction and service recovery have a positive effect on loyalty behaviour.

Customer satisfaction has a significant relationship with service recovery at  $r=0.647^{**}$ ;  $P$  value $<0.01$ ; and communication at  $r=0.700^{**}$ ;  $P$  value $<0.01$ .

**H3.** Service recovery, communication and conflict handling have a positive effect on customer loyalty.

The findings indicated that customer loyalty has a significant relationship with service recovery at  $r=0.641^{**}$ ,  $P$  value $<0.01$ ; and communication at  $r=0.775^{**}$ ,  $P$  value $<0.01$ ; and customer satisfaction  $r=0.545^{**}$ ,  $P$  value $<0.01$ ; and conflict handling at  $r=0.557^{**}$ ,  $P$  value $<0.01$ .

The  $R^2$  was 0.629 (63%); Adjusted  $R^2$  was 0.570 (57%). This means that the findings can be applied to the population in general, since the  $R^2$  shrinkage was 5%.

## DISCUSSION

### Customer satisfaction has a significant relationship with service recovery

Customer satisfaction has a significant relationship with service recovery, at  $r=0.647^{**}$ ;  $P$  value $<0.01$ . Customer satisfaction creates a good impression on the customer such that, even when there is service failure, the customer can patiently seek redress and go through the recovery with the hope of having his/her expectations met. The findings indicated that customer loyalty has a significant relationship with service recovery, at  $r=0.641^{**}$ ,  $P$  value $<0.01$ . The commercial banks ensure that when something goes wrong, leading to dissatisfaction, there are mechanisms in place to recover. This is in line with the multi-dimensional approach to evaluating service recovery offered by Bhandari et al. (2007). Thus managing service recovery should be undertaken in a similar fashion to managing any service, and managers need to understand the customer's recovery expectations. The banks provide customer care desks where complaints can be voiced in case of any dissatisfaction. Some

banks place questionnaires at the counter for customers to submit views and queries, and these are used to help the banks identify complaints. Alternatively, customers may express their disappointment to the employees at the front desk while other staff move around to ensure that customer expectations are met. This enables efficient service recovery and an opportunity for the bank to establish how its customers complain. It can also serve as a stimulus for action to ensure that situations are recovered in the most positive way. These service recovery actions that seek out dissatisfaction and that are launched in response to poor service quality, i.e. service failure, are in line with those suggested by (Andreassen, 2000).

### **Communication has a positive effect on service recovery**

The empirical results show that communication and explanation are the dimensions of importance to consumers when reporting a service failure to a service firm. This finding is consistent with the findings of McCollough et al. (2000), de Ruyter and Wetzels (2000a, 2000b) and others, that the communication of the service provider can positively influence customer evaluations. The findings also indicated that communication has a significant relationship with service recovery at  $r=0.731^{**}$ ;  $P$  value $<0.01$ . This means that communication is highly correlated with service recovery. Successfully recovered customers recommend the company to others or demonstrate a strong propensity to share positive information about their experience with their family and friends. Previous research has found that dissatisfied customers choose to seek redress, engage in negative word-of-mouth behaviour, or exit, based on the perceived likelihood of successful redress, their attitude toward complaining, the level of product importance, and whether they perceive the problem to be stable or to have been controllable (Andreassen, 2000; Boshoff, 2005). Findings show that a very good service recovery has a strong impact on word of mouth (with a high significance value, at 73%), and less impact on satisfaction (65%) and repurchase intention or loyalty (55%), which is also in agreement with Stauss and Schoeler (2004)

Banks are interested in hearing from their customers regarding unmet expectations. Dissatisfied customers, in particular, are often encouraged to communicate their complaints to company service representatives over the telephone, in writing or through direct personal contact with the bankers. Successful service recovery can enhance customers' perceptions of the quality of the service and the organization, lead to positive word-of-mouth communication, enhance customer satisfaction, and build customer relationships and customer loyalty. However, the degree of success may depend on the type of service, the type of failure, and the speed of response. In the case of banks, where complaints are responded to quickly, customers appreciate this. This means that complaints are handled according to the customers' expectations, or at least satisfactorily, that customers are likely to make repurchases, and that they will tell people about the successful recovery. This is because people like to reciprocate or return the favour, for example, by commenting more positively about the bank, when something nice has been done for them.

However, there are times when bank staff spend time talking to their colleagues instead of responding to customer queries, and that annoys the customers, who wait patiently but experience further disappointment. In such cases, some customers may opt to discontinue seeking the services of this particular bank, especially when they have better alternatives. Therefore, some disappointed customers do not complain to staff but complain instead to friends and family, and this means that the service recovery process is not successful, leading to disloyalty. In a case like this, the bank does not detect its mistakes/errors, and therefore may not recover from the failed service situation, and the customer just goes away unhappy.

The bank loses valuable customers as well as missing out on important information that could help ensure that future products/services live up to customer needs and expectations.

### **Service recovery has a positive effect on customer loyalty**

The findings indicated that customer loyalty has a significant relationship with service recovery, at  $r=0.641^{**}$ ,  $P$  value  $<0.01$ . This implies that successfully recovered customers engage in positive word of mouth about the bank, recommend prospective customers, friends and families to the bank for the services on offer, and become loyal customers. This is important for the bank because the potential customers believe in third party information about the services, especially when the customers have had a good experience. This means that satisfaction with service recovery may color subsequent future repurchase intention both directly and indirectly. Our findings show that when it comes to service recovery efforts, customers must be satisfied with the firm's efforts (see also Tax et al., 1998). If not, many negative outcomes will result, including lost sales, negative word of mouth and defections (Andreassen, 1999; McCollough et al., 2000). Hence, a central theme in service recovery is customer satisfaction. Service recovery must contribute to, and enhance, customer satisfaction. This view is also supported by Boshoff (2005).

It is acknowledged, however, that the relationships are not always linear (Augusto de Matos, 2009) particularly in a highly competitive industry with limited differentiation potential and low switching costs (Morrisson and Huppertz, 2010). That notwithstanding, a customer who is dissatisfied with the initial service encounter experiences some degree of negative affect, e.g. anger, disgust, contempt. For customers who voice their dissatisfaction to the bank, initial negative affect is believed to have an impact on how they judge satisfaction with service recovery as well as on their future repurchase intention. In this respect, both cognitive and affective elements are assumed to influence future repurchase intention, i.e. whether customers exit or remain. On the other hand, the negative affect triggered by the initial service failure may have a negative impact on the satisfaction judgment of service recovery, due to the customer being in a negative state of mind, and on future repurchase intentions. This is the reason why banks must work towards successful recovery to maintain a positive image and make a good impression on customers through positive word-of-mouth recommendations (see also de Ruyter et al., 2000a, and Boshoff, 2005).

## **CONCLUSION AND IMPLICATIONS**

The effects of service recovery on customer satisfaction and loyalty in banks were investigated in this study. In other words, the impact of service recovery on consumer evaluations of service delivery was determined. The levels of significance of communication and customer loyalty were very high for those respondents who were satisfied with the service recovery. The importance of communication in service recovery, which positively impacts customer loyalty, was confirmed. Customer satisfaction has a positive impact on service recovery, leading to a high level of customer loyalty through positive word-of-mouth behaviour and repurchase intention. To improve customer loyalty, bank managers need policies and systems for service recovery with improved communication. If failure occurs in a service setting, it is important that steps be taken to pacify the dissatisfied customers. If this is not done, it is highly likely that they will either exit or engage in negative WOM to the detriment of the service provider. The end-result could be lost sales and profits (Johnson & Michel, 2008). On the other hand, consumers who receive fair service recovery are more

likely to be loyal to the service provider and even engage in positive WOM behaviour, thus spreading goodwill for the service provider.

Services, by nature, have unique characteristics. Any failure of service should be handled quickly to ensure customer satisfaction and efficient handling of customer complaints. Employees should receive training to improve on interpersonal relations in an aim to create an understanding between the customers and the bank. Bank managers need to put a lot of emphasis on equipping bank staff with effective communication skills, to provide timely, adequate messages, and to improve on interpersonal skills in their relations with customers. Quick and timely service recovery is important for banks in order to create loyal customers and to handle possible conflicts between employees and customers. To achieve this and ensure customer satisfaction, banks should proactively put service recovery systems in place in their customer care centres. Through having conceptualized, empirically examined and extended the knowledge on the effects of service recovery on consumer satisfaction and customer loyalty in commercial banks, it is our hope that this study will contribute to fostering much-needed prescriptive work in this area.

An implication of current study is that, when managing complaints related to customer dissatisfaction, the approaches undertaken by service quality leaders should aim to provide just resolutions/fairness in service recovery. Consumer complaints give disappointed customers a chance to vent their unhappiness (see also Nyer, 2000). Alicke et al. (1992) and Tronvoll (2010) add that complaining is a way to vent negative emotions. Thus complaints are a very useful form of consumer-initiated market information that can be used to make strategic and tactful decisions. This view is similar to that of Nyer (2000).

This study also provides insight into a company's customer relationship management practices (see also Zeneldin, 2005; Osarenkhoe, 2009; Osarenkhoe and Bennani, 2007; Varela-Neira et al 2010; Breitsohl et al 2010; Tronvoll, 2010). First, in order to encourage customers to complain directly, a company needs to enhance the perception of a possible outcome if complained to. Several operational practices can be taken into consideration, such as establishing warranty and guarantee system for a product or service, improving the function of the customer service center, and dealing openly with customers' complaints by showing what has been done and achieved in specific cases, etc. Second, enhancing perceived value of complaint can also contribute to enhancing customers' direct complaints in several ways, such as lowering costs of complaining by simplifying the process, and enhancing the perceived utility of complaining by dissatisfied customers via improving service quality, making specific compensation known to the public, or setting up a complaining customer reward system, etc.

## **LIMITATIONS AND DIRECTIONS FOR FUTURE STUDIES**

A foundation for future work has been laid in this study. In addition to the valuable insights revealed through this study, there is an avenue for future research in the area of service quality, failure and recovery, as well as the service quality gaps in commercial banking setting. For example, it is demonstrated in this study and extant knowledge (Ravesteyn and Batenburg, 2010; Reijers, 2006) that business process management in general and service recovery in particular are process-oriented, and does not assess whether the reported problem that led to the actual complaint (e.g. there was an error on my bank statement) has actually been resolved. In other words, in Grönroos' (1990) terms, only "functional quality" (*how* the

service is delivered) and not the “technical quality” (*what* is delivered) are measured. One therefore has to consider whether there should not be a dimension (and items) to capture “complaint resolution”. The counter-argument would be that complaint resolution is an outcome, and not a dimension of service recovery. This aspect of the study opens a number of directions for future research with the goal of increasing the still limited understanding of Service Recovery issues in commercial banks. Similar to this argument is service recovery evaluation and post-recovery relationship (Weun et al., 2004) Furthermore, a perceived limitation of this study is the adoption of quantitative approach. However, the methodology adopted for data collection was wholly appropriate and consistent with the perceived outcomes required. It generated ample data, which facilitated discussion and the drawing of specific conclusions. Future studies may adopt triangulation approach (combination of quantitative and qualitative methods) in order to facilitate transferability of findings (through quantitative data) on one hand, and an in-depth view (qualitative data) of the same research questions.

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