



## Effect of Service Recovery towards Customer Satisfaction in Banking Industry

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### Abstract

The purpose of this paper is to measure the relationship between the functional service recovery and technical service recovery towards customer satisfaction in banking industry. Both functional and technical is equally important in service quality especially in service recovery. The competition among the banking industry especially in major cities in Malaysia is very crucial. The study was conducted in Kuala Lumpur based on the top 10 banks based on the market share. 250 questionnaire distributed but only 212 were usable for the data analysis. The results indicated that both functional and technical service recovery plays important role towards customer satisfaction. Banking services or any financial institution should have focused on both

elements in order to provide excellent services that may contribute to customer satisfaction and in the long term lead to customer loyalty.

**Keywords:** Purchase intentions; Relationship quality; Service recovery satisfaction; Banking Industry.

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## Introduction

In the current banking situation, it is important that bank or financial institution to focused on service quality and prepared for service recovery by rendering a good functional and technical service recovery (Reis, Amorim, & Melão, 2019). The elements of functional and technical is important to be used based on selected criteria and necessary (Reis et al., 2019). Functional service recovery is about how the bank managed the customer during the service recovery while technical is the means used in order to achieved the same objective (Hart, Heskett, & Sasser, 1990; Weun, Beatty, & Jones, 2004). Both functional and technical service recovery may have their own unique advantage as customer may perceived differently based on their experience (E. M. Hassan & Mahmoud, 2019; Jin, Nicely, Fan, & Adler, 2019; Jung & Seock, 2017; Mattila & Ro, 2008).

Bank needs to invest and focused on both functional and technical service recovery as both are equally important to customer. The challenge faced by bank is to meet the customer expectations. The competition among industry members is getting tough with the advent technology used and communication platform that being used as part of customer relationship management (Matikiti & Mpinganjira, 2019). Past research indicates that functional and technical elements may be perceived interchangeably by customer based on their scenario and the severity of their problem. (Reis et al., 2019; Santos, Hernandez, & Leão, 2019) claimed that both function should be made available in order to provide excellent services towards customer. Research by (Weun et al., 2004) indicates that customer may have favored technical service quality rather than functional service recovery. However, there are also findings from (de Keyser & Lariviere, 2014) that stated the reverse point of view. This study will evaluate and measure which service recovery approached that may contribute to customer satisfaction the context of banking services.

## Literature Review

### Customer satisfaction

Customer satisfaction is the overall customer experiences based on the services expectation delivered by the service provider to customer (Ariff, Yun, Zakuan, & Ismail, 2013; Ariff, Yun, Zakuan, & Jusoh, 2012; Hu & Liao, 2011). The expectation is very subjective depending on the customer itself. High expectation with low delivery may ends up with dissatisfaction or frustration (Hirata, 2019; Rita, Oliveira, & Farisa, 2019). Low expectation with high delivery will contribute to a positive customer experiences. The challenge is to meet the customer expectations. Why there is a need for banking institute to manage their customer? The reason lies based on past research that related to customer satisfaction (de Keyser & Lariviere, 2014; Hauff, 2019; Razzaq, Razzaq, Yousaf, Akram, & Hong, 2019).

Based on research, a satisfied customer will retain and remain with the services (Chang & Chang, 2010). They will stay in the cycle and have potential to come back, in this context, customer not limited to the one who deposited their salary or saving in the bank but it includes to the customer who dealing with bank related to hire purchase, mortgage loan, insurance and many more. Research indicates that 80% of satisfied customer will repeat their banking facilities at the same bank (Ali & Naeem, 2019; de Keyser & Lariviere, 2014). Having satisfied customer will helps banking to retain customer thus at the same time reduce cost to acquire new one (Matikiti & Mpinganjira, 2019). The cost to acquire new customer is very expensive. Research indicated that cost to get new customer is 20 times more than to keep the current one (Akinici & Aksoy, 2019). Another interesting fact about satisfied customer is those service provider that managed to keep 5% retention customer will lead to additional 120% of their profit (Joe & Choi, 2019). Such figures retrieved from empirical research that proof why it is important for service provider or in this case banking sectors to keep customer satisfied (Jung & Seock, 2017). Having good profit will indirectly means that banking sectors managed to sustain in the business especially during the time when there is too much competition among the financial institutions. Almost all bank is offering similar products or services (Odoom, Agbemabiese, & Hinson, 2019). What is the difference? The difference is the level of service provided by the bank to their customer (de Keyser & Lariviere, 2014).

Research reported that customer satisfaction may separates customer from influenced by competitor. Satisfied customer will not easily decide to switch without strong reason unless there is a negative experience that customer faced and unresolved. (Hirata, 2019; Zhang, Zhang, & Zhang, 2019), claimed that service providers need to provide 12 positive experiences to customer that experienced once negative experienced (Hirata, 2019). The statement is very important for bank to consider before making any decision towards wrong judgement or service failure.

The role and activities that provided by the bank is very crucial and important to customer. Bank cannot afford to do mistake, as the cost of failure is very high. In returns, bank need to

focus in training and staff development in creating a customer centered culture for a long-term benefit. (Chang & Chang, 2010; Muhammad & Gul-e-Rana, 2019), stated that 80% of customer will stopped doing business with bank once they are not satisfied or having negative experience (Akinci & Aksoy, 2019). On another research, it stated that 50% of customer would go away to another bank in result of their negative experience (Muhammad & Gul-e-Rana, 2019).

On the other hand, a customer who went through positive experiences or happiness throughout their dealing may tell nine others about their feeling and experiences. The nine people that illustrate by previous researcher could become exponential due to the technology (Akinci & Aksoy, 2019). Customer now may just express their feelings in the social media. Social media is so effective that it spread beyond the limit of the customer circle. Customer can share their feeling, add photo or video and to provide the location as well of where the service provider is, in order to help promoting the business. Indirectly such activities become part of promotional or campaign to attract new customer (S. Hassan & Shamsudin, 2019; Mohd Farid Shamsudin & Razali, 2015). Customer satisfaction can reduce the cost of promotion and attracting new customer (M. Shamsudin et al., 2015).

Bank strive to serve customer at their level best as part of their objective and business strategy. Most of the bank objective is to satisfying customer even though after experience service failure. Banks need to ensure that the service recovery process done in a manner that lead to customer satisfaction (S. Hassan & Shamsudin, 2019). Service failure normally occurred unplanned but the banks need to always ready and understand the process of the service recovery that may satisfied customer. One of the thing that bank can focused is to study the elements of service failure and put more options on the recovery elements (Mohd-Any, Mutum, Ghazali, & Mohamed-Zulkifli, 2019).

Another situation may provide advantage to the bank resulted from the service failure. The situation is service recovery paradox. Service recovery paradox is a situation where customer will highly decide to stay with the service providers because of the way they managed the service failure. Based on (Odoom et al., 2019; Reis et al., 2019) the service recovery paradox occurred when only minor service failure happened. Such minor service failure may not affect the customer directly. It also stated that service recovery paradox occurred when the customer never faced the similar experienced before (Ali & Naeem, 2019). It means that the customer does not mind on the service failure happened because it is the first time and chances for customer to tolerate is very high. It is also important that if customer perceived that service failure was uncontrolled by the bank. It means that the failure could be due to other external matters that was not the fault of the bank employee or policy. Customer today is very knowledgeable and more reasonable in certain scenario (M. F. Shamsudin, Razak, & Salem, 2018).

Service failure according to (Mattila & Ro, 2008), occurred mostly because of the process. Banks need to study the whole process and standard operating procedures so that it is more

friendly and practical (Özkan, Süer, Keser, & Kocakoç, 2019). There are also research that claimed the service failure because of the systems used by the bank (Odoom et al., 2019; Reis et al., 2019; Weun et al., 2004). Systems failure is possible to happen. Banks need to invest more on the maintenance and get the latest update of system according the size of customers, usage and requirements.

Customer frustration on service failure could lead due to high expectations (M. F. Shamsudin, Razak, et al., 2018). Customer put too high hope that the bank is such good and could never go wrong. A service failure will lead to customer frustration and dissatisfaction (M. F. Shamsudin, Nurana, Aesya, & Nabi, 2018).

Part of the important in service recovery is the urgent recovery or reinstatement (Chang & Chang, 2010; Muhammad & Gul-e-Rana, 2019). Bank must quickly managed the situation so that I will not interrupted the customer matters especially for those who runs business based on the services provided by the bank. Customer recovery can be done by focusing the solutions on customer as priority (Jin et al., 2019). Matters such as wrong billing or action taken due to personnel problem could be easily rectify. The solutions must aims to satisfy customer regardless the amount of losses suffering by them either financially or psychologically (Jung & Seock, 2017). Bank at the same time should focus on the external environment that could lead to service failure. Service recovery should come together with the procedures that can rectified the influenced of external environments or any unforeseen errors. Research also recommended that bank can make used of their marketing campaign in service recovery. Bank to used their social media, websites, messages tools to apology and communicate to customers on the possible problem and the time to taken in solving the issues. Well-informed customer may have high tolerance towards the service failure and hence reduce the frustration. By doing so bank may reflect empathy, which is one of the dimension in service quality introduced by (Goyal & Chanda, 2017; Shankar & Jebarajakirthy, 2019; Torres Fragosó & Luna Espinoza, 2017) Empathy in the contact of service recover is the response from the bank to show their regretful of what happened to customer. Empathy is important to reduce the dissatisfaction from the negative experiences. Besides that, banks should also show responsibility that they would take care the matters in the utmost responsibility within the possible period. (Ariff et al., 2012; Sharma & Sharma, 2019; Zavareh et al., 2012) stated that follow up upon service recovery is the best approach to satisfy customer. Bank should communicate with customer and listen to their feedback should there is any (M. F. Shamsudin, Nurana, et al., 2018; M. F. Shamsudin, Shabi, & Salem, 2018). Follow up to customers enable bank to apology and shows their concern that may affect customer. This research study the effect of functional and technical service recovery qualities towards customer satisfaction.

### **Service recovery quality**

(Hart et al., 1990; Weun et al., 2004) stated that service recovery is the act of service provider



react to a problem by providing a reasonable solution that will satisfied customer. Service recovery is the reaction from service provider as an act that they are responsible towards the service failure. Service failure may cause negative experience to customer and as such it is not something that service providers are looking at but somehow need to prepare themselves should such thing occurred (De Matos, Henrique, & Alberto Vargas Rossi, 2007; Johnston & Michel, 2008; Miller, Craighead, & Karwan, 2000; Smith, Bolton, & Wagner, 1999).

In the case of service failure, banks is responsible to make the service failure recovered. The question that customer will always asked during the service failure experience is how long that the process will take place? Bank is responsible to minimize the risk of losing customer during the service failure. (Akinci & Aksoy, 2019; Ali & Naeem, 2019; de Keyser & Lariviere, 2014)indicates that among the frequent service failure at bank is about to machine breakdown, infrastructural failures, procedural failures, information failures and feedback failures. There are also research from (Ferguson, Paulin, Pigeassou, & Gauduchon, 1999; Hauff, 2019; Muhammad & Gul-e-Rana, 2019) about service failure but focusing on bad employee attitude, slow service delivery, failure of computer systems, unfavorable bank policies, inadequate employee that caused long queue, ATM machine failures and finally wrong transactions. Bank need to keep track all the complaints so that they can control and explain the situation. Past research indicates that only 30% customer complaints directly to service providers and the balance will complaints and share their experiences to their social networking (De Matos et al., 2007; Miller et al., 2000; Smith et al., 1999). Such situation may lead to a negative feedback and assumption from other customers towards the bank branding and image. At any time bank need to act fast on the service recovery by providing the customer adequate explanation. Many customer will make assumption on the cause of service failure. Their assumption most of the time is based on rumors and fake information. Bank responsibility to explain and inform the customer what actually happened and how to resolve that. Bank at the same time should treat customer fairly (Boonlertvanich, 2019). There is a possibility that bank employee only managed to communicate with the high profile customers instead a normal banking customer (Fernandes & Pinto, 2019). That could lead to a gap in the service recovery quality. Bank should also make used of the communication as part of their engagement session to build up relationship with customer. This study will divide the service recovery quality towards customer satisfaction into 2 main variables with is functional and technical (de Keyser & Lariviere, 2014; Ferguson et al., 1999). The result of this to be use by the bank to understand how customer feel and wants bank to do whenever the service failure occurred.

### **Functional service recovery**

Functional service recovery is the focusing on how the service was delivered to customer during the service failure experiences. It relates to the customer experience on the hospitality and interactions with the employee towards the service recovery (de Keyser & Lariviere, 2014). Functional service recovery involves how the service providers contact the customer by

informing about the process and perhaps explain what have been happened and solutions that the service provider is planning to execute (Ferguson et al., 1999). Customer would be happy to hear the statement from the service provider rather than they got shocked, panic or went through the negative experience without knowing when and how it is going to be resolved (Kang, 2006). Customer would be happy to receive a message or communication from the bank personnel to inform on the problem related to their transactions or banking activities. It reflects a positive attitude of the bank employee to notify and explain the status of current situation and what will be the things that customer should expect in terms of service recovery. (Hirata, 2019; Zhang et al., 2019) stated that customer will appreciate the effort of service provider as they show positive attitude and give priority to their customers.

Bank should have focused on internal relation between them and customer. (de Keyser & Lariviere, 2014; Ferguson et al., 1999; Kang, 2006) claimed that internal relationship would close the gap that might have exist due to service failure. Bank reflect the functional service recovery by showing their effort and willingness to serve at any situation especially during the service failure. Bank at the same time must also focused on the communication internally among employee. Employee to be brief on the bank strategy and their strategy in providing the excellent service to customer. (Ferguson et al., 1999) stated that employee may have strong motivation to serve once they understand the strategy and policy towards customer. Employee may put more effort to solicit customer aligned with their objectives.

Past research also indicates that employee appearance is important in the functional service recovery. It is not the matters of willingness to serve but how their appearance to customer that may build confident and increase trust that bank is doing something towards the service recovery (Matikiti & Mpinganjira, 2019; Reis et al., 2019; Santos et al., 2019). Customer would feel happy and reduce anger or doubtful on what is the action taken by the banking employee towards resolving the service failure. A positive appearance may reduce the burden of customer in facing through the service failure through uncertain recovery process. Customer need someone to refer to and being entertained by answering all their concerns and doubtful.

(Özkan et al., 2019; Reis et al., 2019; Santos et al., 2019) claimed that accessibility to the person responsible for the service recovery is important as customer would like to confront and listen the plan and strategy by the top people. Customer should be given and entertained with all possible communication channels such as email, phone call or perhaps engagement session to explain on the situation. Functional service recovery is about how the service provider handle and managed the process in delivery the recovery. (Matikiti & Mpinganjira, 2019; Muhammad & Gul-e-Rana, 2019) stressed that there is a possibility that customer become more satisfied should the service provider managed to show their effort and proven functional service recovery during the service breakdown or service failure.

### **Technical service recovery**

Functional service recovery and technical service recovery is a dual mechanism that bank should focused. Functional is related to “how” but technical service recovery is related the means that bank used to deliver the objective in the service recovery (Muhammad & Gul-e-Rana, 2019). Technical service recovery includes the systems and infrastructure designed and created to organize delivery of the service. Among the important things that bank should consider is the technology used in servicing customer. (de Keyser & Lariviere, 2014) stated that technology that available today managed to satisfied customer by providing excellent services to customer beyond the limit and capability of employee. Technology used can be used as an auto alert to customer should there is any error or failure. Technology enables customer to view online transactions and even doing any activities offsite the premises. Those technologies provide another extension of banking services to customer. (Abualsauod & Othman, 2019; de Keyser & Lariviere, 2014; Ferguson et al., 1999; Kang, 2006) stated that service provider should use the same elements in servicing during the communication of service recovery. Customer to be alert and update continuously from time to time until the process completed. That service recovery will be another positive experience that customer will enjoyed and increased their satisfaction based on how the service provider treat them during failure. (Abualsauod & Othman, 2019; Ariff et al., 2013; Seth, Momaya, & Gupta, 2008) stated that during that time, customer trust increased and ready to stay longer with the service provider.

The used of machines and computerization is becoming popular in today service level. Customer can even chat with a preset robot that can answer simple questions based on preset answer based on keywords. Customer is getting around the clock services with the help of artificial intelligence. Machines can talk to machines. The computer system is another platform that used to keep data and feed the information to the right target or market segment. Technical service recovery is about how the bank shows the ‘know how’ employee in solving the service failure. During service failure, customer hopes is that bank solve all problems within the amicable time. The ‘know how’ skills shows that employee have the knowledge, experience and professional skill set in handling and dealing with the situation. (E. M. Hassan & Mahmoud, 2019; Matikiti & Mpinganjira, 2019; Reis et al., 2019) professional service will contribute to a positive customer experience and enhance customer satisfaction. Technical service recovery is equally important towards customer satisfaction. It relates to the effort of how bank provide the service recovery and what was received by the customer during the process occurred (de Keyser & Lariviere, 2014; Ferguson et al., 1999).



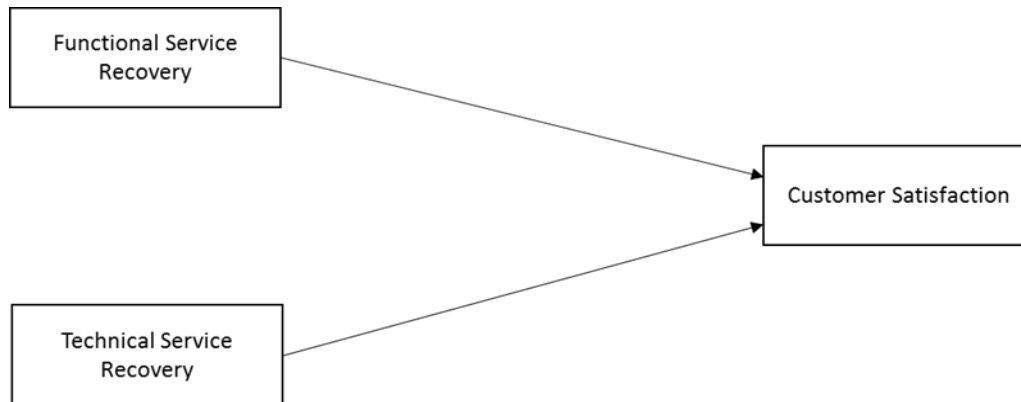


Figure 1. Research framework

## Methodology

A survey was designed in order to assess the measurement of the hypothesis. All items adopted from the past research conduct in the same research related to service recovery quality. There are two versions of questionnaire used in this survey with a difference in a language. Two sets prepared for customer to choose based on their preference. Respondent can choose English text or Indonesia language (Bahasa Indonesia). Questionnaire was validated by expert in service quality from 3 universities. There are some corrections in terms of translation were made upon suggestion by the expert. This research targeted customer from top bank in Indonesia. Top bank was selected based on their size and market share. This research used 4 research assistant that has been assigned to approach bank customer for their participation. Participation was based on voluntary basis. Bank customer will be offered to take participation after they completed their banking activities. 10 bank chosen namely are Bank Rakyat Indonesia (BRI), Bank Central Asia (BCA), Bank Tabungan Negara (BTN), Bank BTPN, Bank OCBC NISP, Bank Mandiri, Bank Negara Indonesia (BNI), Bank CIMB Niaga, Panin Bank, and Bank Maybank Indonesia. Data were collected using a self-administered questionnaire survey. In total 250 questionnaires collected in 5 days. 32 were rejected due to missing data. The balance of 212 were used for further data analysis. All items were adapted from past research. This survey employed seven-point Likert scale with 1= strongly disagree; 4 = neither agree nor disagree; 7 = strongly agree.

Table 1. Summary of statistics of questionnaire survey

Constructs	Number of Items	Mean	Sd
Functional service recovery	6	5.134	1.204
Technical service recovery	6	6.234	1.420
Customer satisfaction	5	5.565	1.078

Table 1 above indicates the details of items according to the constructs together with the mean value.

Table 2 below shows the rotated factor loadings and their eigenvalue and Cronbach alpha value. The results indicated that calculated alpha value is more than 0.7 that reflects a good consistency among items.

Table 2. Result of factor analysis

No	Functional service recovery	Technical service recovery	Customer satisfaction
FSR 1	0.921		
FSR 2	0.962		
FRS 3	0.923		
FRS 4	0.940		
FSR 5	0.782		
FSR 6	0.765		
TSR 1		0.833	
TSR 2		0.876	
TRS 3		0.765	
TRS 4		0.962	
TSR 5		0.756	
TSR 6		0.925	
SAT 1			0.788
SAT 2			0.865
SAT 3			0.861
SAT 4			0.976
SAT 5			0.880
Eigenvalue	6.654	3.632	1.623
Cumulative percentage of explained variance	38.106	57.321	72.431
Cronbach alpha	0.883	0.854	0.874

Table 3 below shows the AVE values for constructs ranged in between 0.55 to 0.79 indicating good reliability. The table also shows that all values are above the threshold value 0.7. It means that all the constructs have high reliability value.

Table 3. Measurement model results

Constructs	Standardized loadings	t statistics	CR	AVE
FSR 1	0.911	21.346**	0.95	0.79
FSR 2	0.905	22.457**		
FRS 3	0.912	21.563**		
FRS 4	0.920	22.358**		
FSR 5	0.732	16.667**		
FSR 6	0.715	16.223**		
TSR 1	0.833	20.686**	0.88	0.72
TSR 2	0.876	20.774**		
TRS 3	0.765	14.312**		
TRS 4	0.962	21.768**		
TSR 5	0.756	14.488**		
TSR 6	0.925	21.365**		
SAT 1	0.788	14.356**	0.82	0.55
SAT 2	0.865	18.421**		
SAT 3	0.861	18.899**		
SAT 4	0.976	21.233**		
SAT 5	0.880	18.221**		

\*\* indicates significant at  $p < 0.01$  level

Table 4. Correlations between constructs

	Functional service recovery	Technical service recovery	Customer satisfaction
Functional service recovery	<b>0.79*</b>		
Technical service recovery	0.06	<b>0.72*</b>	
Customer satisfaction	0.18	0.35	<b>0.55*</b>

\*Diagonal elements are AVE

The AVE value for Technical service recover is 0.73 while the squired inter-construct correlations estimates value is 0.35. AVE for functional is 0.78 and the squired inter-construct correlations estimates value is 0.06 for technical service recovery and 0.18 for customer satisfaction. Table 5 is the final results of the path analysis. Both hypothesis are supported.

Table 5. Path analysis of structural model

Casual path	Hypothesis	Path coefficient	t-stat	Results
Functional → Customer satisfaction	H1	0.205**	3.45	Supported
Technical → Customer satisfaction	H2	0.302**	5.541	Supported

\*\* indicates significance at P<0.01 level

## Conclusion

The findings of this research is related to past study conducted in banking services recently. Research conducted by (Abualsauod & Othman, 2019; de Keyser & Lariviere, 2014; Ferguson et al., 1999; Kang, 2006) indicated that there is a special needs for banking service provider to focused on both functional and technical service recovery qualities. Functional and technical service recovery quality could be sees as a different set of variables from the perspective of service provider but somehow it needs to be blend together depends on the nature of business that the services is provided.

There are however a different set of opinion as produced by (Ariff et al., 2013; Seth et al., 2008) that indicates the important of technical quality rather than functional. The difference conclusion towards this issues can be related to the current generation that become the majority of customer in the service industry especially banking. Generation Z for example is more focused on transforming the system which is related to technical. Generation X for example is the first generation that exposed to technology and generation Y is known as the first to enjoyed the multi-screen technology. All these three generation are currently in the current customer life cycle but they react differently based on what they were raised and exposed.

Managers in banking institution need to more alert and focused on their market segment in communicating with customers. The current practiced in service recovery seems to be acceptable but blend method is the best in order to provide high level of customer satisfaction level.

## Conflict of interest

The authors declare no potential conflict of interest regarding the publication of this work. In addition, the ethical issues including plagiarism, informed consent, misconduct, data fabrication and, or falsification, double publication and, or submission, and redundancy have been completely witnessed by the authors.

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