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Empirical Study on Effect of Perceived Justice in Service Recovery: Malaysia Banking Industry

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Abstract: The service recovery, customer satisfaction and behavior intention has caught the attention of researchers and academicians recently. Despite the popularity of the subject, there is still ample space to know more about service recovery particularly in banking industry. The research aims to contribute to a growing body of service recovery knowledge by examining the impact of service recovery on customer satisfaction and post behavior intention. To test the proposed model, questionnaire was used and 304 samples were collected from different states in Malaysia. The result from the regression analysis shows that the impact of perceived interactional justice on customer satisfaction with service recovery appears to be the most significant factor compared to procedural and distributive justice. Customer satisfaction was powerful significant influence on customer loyalty followed by continue service intention.This study offer practical insight into the behavior of bank customer who have bad experienced with the bank and their opinion on the subsequent follow up action received from the bank's service recovery. It also provides a basic guideline for managers to develop the appropriate strategies in service recovery process in banks.

Key words: Service recovery · Customer satisfaction · Post behavior intention

INTRODUCTION

In today's' business environment, it is no more a secret that service industry is becoming more and more important. Service providers are facing extreme pressures on customer service than ever before and this powerful competitive pressure leaves service providers with no option but to enhance the service quality and minimize service failure. When service failure occurs, the responses from service provider have the potential in determining whether customer satisfaction will be restored or worsen the situation by driving the customer to competing firms. A service failure refers to anything that is perceived to be wrong as viewed from the perspective of the customer when receiving a service from the service provider [1]. It is also no secret that the number of service failures which occur in banking industry is high and so keeping existing customer is of priority in this industry in order to survive and prosper [2]. The industry is aware that service failures are inevitable, but dissatisfied customers are not, therefore, service recovery has been given an attention in recent years to cater for and satisfy customer [3].

In banking industry, it is significant to continue develop the customer analysis. All banks try to provide 100% error free services, but it is impossible as the delivery process is complicated with high involvement of human element [4]. Prior findings show that service failure in banks are caused either by front-line employees or backroom staff, equipment, information system incompetency, or out of service. In addition, research has shown that evidence of service failure in banking industry is due to human mistakes, lack of reliability and the process failure [1, 5]. Thus, service failure is very common in banking industry. As service failure is inevitable, banks need to implement recovery strategies to curb the negative effects of failure [6]. When service failures do occur, bank relies on customers to complain in order to bring the service failures under their attention. If customers do not complain, banks remain unaware of the service failures that customers experience. Research has shown that when customers are dissatisfied but do not complain, repurchase intentions for various kinds of products will range from 9% to 37%. However, if customer files a complaint and the company tries its level best but

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the problem still remains unresolved, the retention rate is range from 9% to 19%. If the problem is resolved to the satisfaction of the customer, the retention rate will increase to 54%. Research further proved that 82% is the highest retention rate achieved, when problems are fixed on the spot and without delay [6].

Research has shown that service recovery paradox is far from universal. A study of repeated service failures in a retail banking context has showed that the service recovery inconsistency exists after the first recovery attempt. However, the paradox tends to disappear if a second service failure occurs [7]. These different points of views for the service recovery paradox have become the main trigger point of this research paper. It is crucial for us to find out whether service recovery should be seen as a profit center or a cost center of an organization. Another research gap appears when most of the previous studies have mainly focused on the hospitality industry which is a broad category of field of service [8]. Another issue is that limited research has been conducted in banking industry. In short, this research aims to contribute to a growing body of service recovery knowledge by examining the impact of perceived justice on customer satisfaction with service recovery and also to investigate the relationships between satisfaction and post-behavior intention of customers from the local banks in Malaysia.

Literature Review: Service recovery is the process by which the service provider attempts to rectify service failure. The attempts would involve actions designed to resolve the problem and to change the negative attitude of the dissatisfied customer and ultimately to retain these customers [9]. Further, Hoffman *et al*. [10] classified the management of service recovery as a strategy to retain customer. Thus, it is proven that a successful service recovery has tremendous benefits, including fostering a satisfied customer, building a stronger customer relationship and leading to higher loyalty. The proposed model of the study is based on two relevant theories i.e. justice theory and loyalty chain theory.

I. Justice theory - it is based on the assumptions that the customer evaluates the fairness of service recovery from three different perspectives namely distributive, procedural and interactional justice [11,12]. The idea of evaluating fairness of service recovery using the justice theory has been measured in a relatively transaction-specific manner [13]. The three-dimensional view of justice concept is proposed in service recovery evaluation [14], where it is agreed that consumers are concerned with the perceived fairness of outcome, how they are treated and the manner in which complaints are dealt with [11] and the process by which compensations are allocated [15].

II. Loyalty chain theory - loyalty is the deep commitment held by customer to re-purchase or re-patronize with the same preferred service provider, thereby causing repetitive same brand [16]. Oliver [17] defined satisfaction as the post consumption emotion response that may occur resulting from difference between expected performance with actual performance or outcome received. Oliver [17] uses situations and psychological factors as mediators in the relationship between satisfaction and loyalty.

III. Perceived justice with service recovery - Literature show that perceived justice is an important factor in evaluation of service recovery [18]. When perceived justice is high, customer will have the perception that they are treated fairly by the service provider. Clemmer and Schneider [19] revealed that justice consists of three dimensions namely distributive, procedural and interactional. All these three types of justice contribute to customer's evaluation of recovery [20,21]).

Distributive Justice: It is usually defined as the customer's perception of the fairness or justice of outcome from service provider's response [22]. Distributive justice is the compensation given to customers during service recovery and customers perceived the refund, apology, or vouchers received as atonement from offending service provider [23]. Compensation may be in the form of monetary or non-monetary [24].

Procedural Justice: It is the perception of fairness of service provider's visible policies and procedures, which the customer has knowledge or experience off [25]. Procedural justice focuses on flexibility and efficiency of the recovery rules, regulation and policies. When a customer encounters a service failure, they can comprehend procedural justice of recovery actions on how service provider admits the mistake, acts promptly and appropriately to rectify the failure according to customer's expectation [26].

Interactional Justice: it is defined as customer's perception of fairness of employee's attitude and personal interaction skill with the customer. According to Sparks & McColl Kennedy [27], the manner of respect, dignity and politeness received by customer from service provider's employee is captured by interactional justice.

IV. Perceived Justice in Service Recovery and Customer Satisfaction **-** The main issue with service failure and the recovery process is the impact on the customers' emotional response. According to Chebat & Slusarczyk [28], when service failure occurs, a customer is prone to convey the failure experience they encounter and their dissatisfaction through negative word of mouth communication or negative attitude towards offending service provider. Previous research has proved that perceive justice is classified as the key cognitive influence in customer satisfaction and post intentions in service recovery situation. [29,30]. Karatepe [19] has concluded that out of three dimensions, interactional justice with complaint handling provides greater influence on customer satisfaction than distributive justice and procedural justice. On the other hand, Riscinto-Kozub &O'Neill [30] discovered that procedural justice has positive relationship with on-going customer satisfaction and loyalty. Similarly, Ok, *et al.* [20] also discovered that procedural justice has the strongest influence on recovery satisfaction, followed by the distributive justice and interactional justice. In addition,

In the same way, Hamzae *et al.* [31] found that that procedural justice has powerful influence on customer satisfaction followed by interactional and distributive justice. In the contrary, researchers such as Kaunda & Osarenkhoe [33] and Mirani, *et al.* [34] argued that distributive justice has the significant impact on customer satisfaction compared to procedures and interactional. Recently, Namkung and Jang [3] also demonstrate different rolesfor each of perceived justice in service recovery with satisfaction and behavioral intentions. There is inconclusive research has yet done on which dimension of perceived justice has significant impact on customer satisfaction, particularly in banking sector. Therefore, research proposes the following hypothesis.

H1: Perceived distributive justice in service recovery has positive impact on customer satisfaction.
H2: Perceived procedural justice in service recovery has positive impact on customer satisfaction.
H3: Perceived interactional justice in service recovery has positive impact on customer satisfaction.

V. Recovery Satisfaction and Post Intention Behavior - To explore further in service recovery, research has shown that satisfaction acts as an intermediate variable that explains the relationship between service recovery and post behavioral intention which consists of customer loyalty and continue of service intention [35]. Prior research discovered that satisfaction leads to customer loyalty , [36]. However, Oliver [17] stated that a customer cannot be loyal without being satisfied with the overall services and products received. However, Kuo *et al*., [37] argued that recovery satisfaction is likely to have positive impact on continue service intention. The previous finding is strengthen with sighting from Lii, *et al*., [9] and stated that recovery satisfaction is proven to be a reliable predictor of continued service intention. Nevertheless, Mirani, *et al*, [34] concluded that compare to service intention, word-of moth effect has stronger relationship with service recovery satisfaction. To solve the ambiguous arguments on whether recovery satisfaction has strong relationship with customer loyalty or continue of service intention, the current study proposes as following hypothesis.

H4: Customer satisfaction has a positive impact on customer loyalty.
H5: Customer satisfaction has positive impact on continue of service intention.

Research Framework: Research framework of the study is developed based on the underpinning theories of justice [12] and loyalty chain [17]. The purpose of the research is to investigate the significant impact of each of the perceived justice in service recovery on customer satisfaction and also to assess the relationship between satisfactions and post behavior intention i.e. customer loyalty and continue of service intention. Diagram 1 shows the research framework of the study.

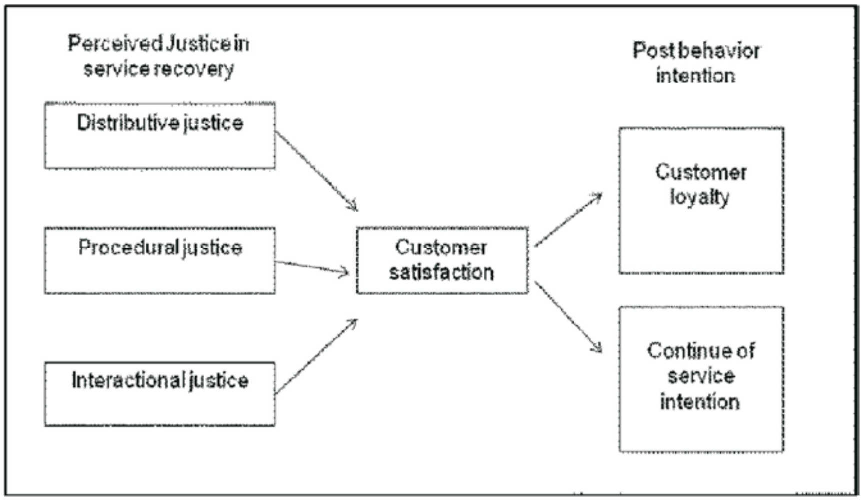

Diagram 1: Proposed Framework

Research Methodology: For the purpose of the research, questionnaire survey method was used in collecting the primary data. The targeted respondents were current local bank customers in Malaysia and aged 18 years and above, with past experience of unsatisfactory service recovery in Malaysian local banks. The sample size of 350 respondents, having banking accounts in Malaysia, is gathered for this research purposes. However, only 304 data were considered valid and hence used for this research. Statistical Package for Social Science (SPSS) was used in analyzing the data. Descriptive analysis showed that data were collected on equal number of males and females. In terms of age distribution, most of the respondents are from the middle aged group that is between 28 to 37 years old with a total number of 202 respondents. In terms of ethnicity, 152 respondents are Chinese, followed by Malay, Indian and other. Most of the respondents hold a Bachelor's Degree with income level range between RM4, 000 and above.

RESULTS AND DISCUSSIONS

Factor analysis was used in this research to check if the measurement items of all the variables are corresponding with the construct. Result showed that factor loading ranges from 0.938 to 0.993 that well exceeded the generally recommended minimum value of 0.5. Apart from that, the KMO value for all the variables are within the range of 0.722 to 0.886 which is higher than the rule of thumb of 0.70. In addition, the significant levels are 0.1% which is lower than 0.5%. It can be concluded that each factor was valid as a construct and fit for the research study. The multiple regressions method is applied to investigate the relationship between dependent and independent variables. From the results of multiple regressions analysis revealed that R^2 regression is 0.950 which is within the range of acceptable values of 0 to 1, suggesting a very good fit of the model.

The t value of 3.324 (sig. = 0.001) and coefficient of 0.182 explained that perceived distributive justice has positive significant influence on customer satisfaction at 0.1% significance level. This result is consistent with the results of previous studies where distributive justice was found to have greater impact on customer satisfaction [26]. Whereas, t value of 4.434 (sig. = 0.000) and the coefficient of 0.266 explained that perceived procedural justice has positive significant influence on customer satisfaction at 0.1% significance level. This result is also consistent with the results of previous studies where the procedural justice was found to have impact on customer satisfaction [20,31].

The t value of 16.387 (sig. = 0.000) and the coefficient of 0.543 show that perceived interactional justice has a positive significant influence on customer satisfaction at 0.1% significance level. The result is also consistent with the results of previous studies where interactional justice was found to have impact on customer satisfaction [21]. Based on the regressions result, perceived interactional justice has the most significant influence on customer satisfaction with β= 0.543. This is followed by procedural justice (t-stats=4.434; β= 0.266) and distributive justice (t-stats=3.324; β= 0.182). Finding of the result does not agree with previous research findings where suggest that distributive justice is the most significant factor on customer satisfaction [33,34].

The customer satisfaction t value of 52.107 (sig. = 0.000) and coefficient of 0.832 explained that customer satisfaction has positive significant influence on customer loyalty at 0.1% significance level. This result is consistent with the results of previous studies where customer satisfaction was found to have impact on customer loyalty Terblanche & Boshoff [38]. The customer satisfaction t value of 46.709 (sig. = 0.000) and coefficient of 0.875 explained that customer satisfaction has positive significant influence on continue service intention at 0.1% significance level. This result is consistent with the results of previous studies where customer satisfaction was found to have an impact on continue of service intention [39]. Based on the result, customer satisfaction has the most significant influence on customer loyalty with β= 0.949 and followed by continue service intention with β= 0.939 [40].

CONCLUSION

Research paper aimed to broaden the service recovery knowledge in Malaysian local banking industry as it is essential to find out the current status of service recovery process of Malaysian financial services sector. In addition, customer satisfaction is the key theoretical and practical topic as it associates the different stages of customer post purchase behavior. So far, previous research has obtained different results depending on the industry sector. Current study is banking industry which aims to elucidate the impact of perceived justice on service recovery satisfaction and its impact on post behavioral intention (loyalty and continue service intention) of local banks in Malaysia. In this study, the role of customer satisfaction in the service recovery process was indirectly highlighted. The results document the mediating role for customer satisfaction between perceived justice and postbehavior intention. This finding is significant as without the inclusion of customer satisfaction, the understanding of relationship between perceives justice and post intention behavior is incomplete. In short, an effective service recovery is important and must be carefully designed and conducted for the purpose of installing customer satisfaction and establish loyalty and continue service intention among the customer.

Practical Implications: This study extends previous research by providing a more comprehensive theoretical framework that helps to further explain the relative impact of perceived justice in service recovery on customer satisfaction and post behavior intention (customer loyalty and continue service intention) of local banks in Malaysia. This study offer practical insight into the behavior of bank customers who have bad experienced with local banks and their opinions on the subsequent follow up action received from the bank's service recovery. Theories discussed in this study can be used as a basis to develop appropriate strategies in service recovery process in banks. Findings enable bank managers to better understand the service recovery process in that interactional justice would be more important than the other two justice dimensions from the customer's perspective. Therefore, paying more attention to interaction justice is certainly the most effective means to improve customer satisfaction of service recovery in Malaysian local banks.

CONCLUSION

The bank managers should ensure that bank employees must show the concern in the problems encountered by customers with honesty, sincerity and courtesy. Thus, the first thing that a bank manager should look at, is implementing a professional training program. This program should educate and clearly demonstrate on effective communication skills, problem handling and solving skills, appropriate manner in handling angry customer, staff showing empathy and attentiveness, as well as genuine apology extended to customer when things goes wrong. In addition, a role play and situation type of questions may help, especially the front-line employees, to better understand the proper ways to treat customers. In addition to that providing suitable rewards and recognition to bank's staff is also a smart choice of exemplary efforts to motivate staff to perform better.

Apart from interaction justice aspect, procedural and distributive justice aspect should not be neglected as both have impact on customer satisfaction with recovery. Further, to improve customer satisfaction and loyalty, bank managers need policies and systems for service recovery with improved communication. Customer survey should be conducted frequently to enable managers to understand the satisfaction level of the customer. This is very useful for managers in ensuring all problems are effectively handled and customer loyalty is restored after a service failure.

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