Effect Of Service Recovery On Customer Retention In Selected Commercial Banks In Onitsha, Anambra State

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ABSTRACT

This study investigated the effect of service recovery on customer retention in selected commercial banks in Onitsha, Anambra State. This study became necessary following the high level of service failure in the banking sector resulting to customer dissatisfaction. Relevant conceptual, theoretical and empirical literatures were reviewed. The study was anchored on equity theory. Survey research design was adopted and the study was carried out in Onitsha, Anambra State, South East Nigeria. Three hundred (300) customers of six commercial banks were sampled for the study. The study made use of primary sources of data generated through structured questionnaire. The collected data were collected, coded and analyzed using simple regression analysis with the aid of Statistical Package for Social Science version 21. The results indicated that service recovery has a significant positive effect on customer retention in selected banks. The study therefore concludes that service recovery has significant positive effect on customer retention in selected banks in Onitsha, Anambra State. The study recommends that banks should prepare their employees with service recovery strategies that include an immediate and appropriate service failure response in order to enhance customer retention.

Key Words: Service Recovery, Customer Retention

INTRODUCTION

Providing efficient customer service has become a challenging task in Nigeria banking sector, particularly after the financial sector reforms. Providing effective and well-organized service to the customers has become a top priority of deposit money banks in order to attract and keep the new customers and retain existing customers. Understanding the nature of the service one provides to customers allows for an appreciation of how the customers see the services provided. Tumi (2005) maintained that in any service interaction, customers’ perception is essential to firm’s ability to ensure that they are satisfied beyond expectation. Porter (2008) explains that customer expectations and demand for services have substantially increased. As consumers become better educated, they demand new products, improved service delivery, as well as more responsive services. Hence, banks have to understand the customers’ needs and expectations and satisfy them by providing excellent services. When customers become dissatisfied with the services rendered, they lay their complaints to the firms. Complaints need to be attended to and resolved as soon as possible even though they may appear to be time-consuming and costly; otherwise it can lead to reputational damage as a result of bad publicity. Handling customer complaints often represent the last opportunity that an organisation has to address the dissatisfaction from customers and to retain them (Vincent & Webster, 2005). Organization has to welcome customers’ complaints with open arms as it will afford them the opportunity to learn from and to correct mistakes and errors, restore customer confidence and to use the feedback strategically for organisational improvements (Hughes & Karapetrovic, 2006).

When the complaints from customers are handled well and resolved to their satisfaction, the customer may become more likely to make future purchases than one who has never experienced a service failure (Maxham & Netemeyer, 2002). It has been argued that an effective complaint management system should solve customers’ problems while also ensuring customer satisfaction with the handling process itself, including processing of the complaint, speed of the organization’s response, and the competence of the employee involved (Lovelock & Wirtz, 2007). Therefore, understanding the
potential sources of dissatisfaction and customers’ reactions to negative situations are mandatory
requirements in the design of effective service recovery strategies. Theoretically, complaining is a
natural consequence of low satisfaction, not an opportunity to increase satisfaction hence complaint
resolution has become more vital than complaints per se. The benefits of a good service recovery
system is to increase operational efficiency, by identifying trends and causes of complaints, adopting
a more customer-focused approach in resolving complaints, engage employees with effective
customer service training opportunities and monitor and continually improve the complaints handling
process.
Ndulilo (2014) maintained that complaints and the processes for handling them are vital issues for
service providers because they have the potential to have an adverse effect on customer satisfaction
and consequently retention. Most often, banks customers complain about the services they receive.
Shammout and Haddad (2014) noted that “almost half of consumers’ complaints about banking
services relate to opening, closing or managing their accounts. Another quarter of complaints are
about deposits and withdrawals. Problems in this category include transaction holds and unauthorized
transactions. Difficulties caused by low funds, such as overdraft fees and bounced cheques, are
another significant complaint category”. Research into the consumer complaints behavior reveals that
only a fraction of the dissatisfied consumers complain to firms and this gives firm opportunity to
remedy what has gone wrong (Ndubisi & Ling, 2005), while some dissatisfied customers do not
simply complain because of their skepticism about the firm's willingness and capability to fairly
resolve the disputes arising service failure. This category of customers simply withdraw their
patronage and criticize the firm using negative word of mouth and this may affect the firm negatively
as valuable customers may be lost to competitors.
Despite the fact that most organizations appreciate the importance of managing complaints, overall
customer retention after a failure has not improved (Michel, Bowen & Johnston, 2009). Organizations
need to encourage dissatisfied customers to complain so that they can solve the problem and retain the
customer. Unfortunately, organizations that do not rise to the challenge of complaining customers are
turning down the important opportunity of reclaiming and improving a relationship. Owing to the
apparent importance of effective complaints handling, there is a research gap on how organization
management should treat all complaining customers to ensure customer retention.
Without effective management of consumer complaints especially in relation to service recovery,
firms will be unaware of their problems, and may not improve their overall service performance
(Heung and Lam, 2003). It may also be difficult to know what customers expect if they don’t provide
feedback to the firm. The way in which complaints are addressed in banks will lead to satisfaction or
dissatisfaction. Maxham and Netemeyer (2003) noted that if customer complaints are not effectively
handled, the negative implications may be far-reaching. Dissatisfied customers will not only
discontinue their patronage, but are also likely to spread a negative message, jeopardizing the bank
image (Svari, Svensson, Slåtten & Edvardsson, 2010). Some dissatisfied customers may seek redress,
while others may not approach the bank with their complaints but may engage in negative word-of-
mouth (WOM) behaviours because many banks do not pay sufficient attention to effective handling of
complaints. Negative WOM may be damaging to banks because such messages are more likely to be
believed.
Regarding banking services in Nigeria, there have been considerable consumer complaints generated
by many problems. These problems include service failures, poor service quality and unfair treatment
from the employees in these banks. Apart from being dissatisfied with the initial problems encountered, many consumers are likely to be unsatisfied with the ways in which their complaints
have been addressed. Sometimes it is not only the initial service failures that cause dissatisfaction but
also the service provider’s lack of appropriate responses to failures. Based on the foregoing, This
study examined the effect of service recovery on customer retention in selected commercial banks in
Onitsha, Anambra State.
Service Recovery

Service recovery is a key concept that can make the difference between the company’s success and failure. The term “service recovery” refers to the actions taken by the company in response to an observed service failure. Service recovery can be defined as an action undertaken by service provider in response to service failure in attempt to deliver service right at the second try (Hamer, 2006). Service recovery is defined as “the actions of a service provider to mitigate and/or repair the damage to a customer that results from the provider’s failure to deliver a service as is designed” (Johnston & Hewa, 2007). Smith, Karwan and Markland (2012) posit that service recovery is an instrument of competitive advantage that attempts to rectify customer issues during and after the service encounter and before and after complaints. Hoffman, Kelley, and Rotalsky (1995) posit that service recovery describes inputs that define the cost associated with the service failure (economic, time, social, energy, and psychological costs) and the outcomes associated with the results of the recovery tactics (e.g. cash refunds, apology, replacement, etc.) including the manner and procedural processes with which the outcomes were handled.

LITERATURE REVIEW

Customer Retention

Customer retention is a complex phenomenon having been topical across industries. Customer retention has been broadly defined as the ability of a business to get existing customers to repurchase from them which is reflected in the definition by Ginn, Stone and Ekinci (2010) “customers’ declared continuation of a business relationship with the firm. Customer retention is known for its reliance on the extent of firm’s two way communication in maintaining relationship with customers. While the precise meaning and measurement of customer retention can vary between industries and firms, there appears to be a general consensus that focusing on customer retention can yield several economic benefits (Buttle, 2004). As customer tenure lengths, the volumes purchased grow and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other. Because fewer customers churn, customer replacement costs fall. Finally, retained customers may pay higher prices than newly acquired customers, and are less likely to receive discounted offers that are often made to acquire new customers. All of these conditions combine to increase the net present value of retained customers.

The banking industry is highly competitive, with banks not only competing among each other but also competing with non-banks and other financial institutions (Hull, 2002). Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer satisfaction and retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today’s ever-increasing banking competitive environment. One strategic focus that banks can implement to remain competitive would be to retain as many customers as possible (Ro King, 2005). The costs of acquiring customers to “replace” those who have been lost are high because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship (Ouma et al., 2013). In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company and they also take less of the company’s time and are less sensitive to price changes. In addition, customer retention is very important because it has a bearing on costs and profitability over time. Ro King (2005) also explained that customer retention involves steps taken by a selling organization in order to reduce customer defection and successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime.
of a relationship. Also customer retention is important to most companies because the cost of acquiring a new customer is far greater than the cost of maintaining a relationship with a current customer (James, 2012).

**Theoretical Framework**

This study is anchored on equity theory. Equity theory was first developed in the 1960s by Stacy J. Adams, a workplace and behavioral psychologist. This theory is built upon the argument that a “man’s rewards in exchange with others should be proportional to his investments”. An early recognition of this theory first came out of research by Stouffer and his colleagues in military administration. They referred to ‘relative deprivation’ (equity) as the reaction to an imbalance or disparity between what an individual perceives to be the actuality and what he believes should be the case, especially where his own situation is concerned.

This theory is anchored on three principles of fairness to perception applied to organisation settings which include distributive justice or the perception of equality of an individual outcome. Procedural justice, or the fairness of the procedures used to determine ones outcome and lastly, interactional justice which is the perception that customers has to be treated with dignity and fairness. Ogundele (2016) identifies two major components to the theory. First, the theory specifies the factors which influence the extent to which people feel that they are being equitably treated. Second, the theory outlines the kind of activities which individuals might be motivated to engage in to restore feelings of equity when they are feeling inequitably or unfairly treated.

This theory is germane in explaining the relationship between service recovery and customer retention. Consumers are prone to spread a negative word of mouth when they perceive an unfair response to a service failure. When customers perceive that they have not been sufficiently compensated for the damage, they may feel even more annoyed than they were subsequent to the failure. This is because a report of a service failure may imply unfair treatment of the customer; service recovery must therefore re-establish justice – from the customer's perspective. With effective handling of complaints, consumers will perceive fair treatment. In the case of a service failure, individuals will perceive inequity and they will try to restore equity by complaining. Hence, equity theory ensures that customers are compensated for service failures in order to enhance customer retention in banks.

**Empirical Studies**

Yves, Bart and Iris (2012) investigated the impact of process recovery communication on customer satisfaction; repurchase intentions, and word-of-mouth intentions. The study was conducted in bookstore, telecom operator, and food retailer in Belgium. Multivariate analysis of variance/multivariate analysis of covariance and multivariate regression analysis were employed in analyzing the data. The study found that process recovery communication positively affects customers’ overall satisfaction; repurchase intentions, and word-of-mouth intentions through higher perceptions of the firm's relationship investment and overall justice.

Chihyung (2004) examined the effectiveness of service recovery and its role in building long-term relationships with customers in a restaurant setting. Six hundred (600) respondents were sampled for the study. Structural equation Modeling and multivariate analysis of variance were employed in analyzing the data. The study found that the three dimensions of justice (distributive, procedural, and interactional justice) were found to had positive effects on recovery satisfaction. This study indicated that, although a service failure might negatively affect customers’ relationship with the service provider, effective service recovery reinforced attitudinal and behavioral outcomes.

Abou and Abou (2013) examined the influence of perceived service failure recovery strategies on customer satisfaction and loyalty in hotels. A total of 270 respondents were sampled for the study. Descriptive statistics and independent sample t-test were employed in analyzing the data. The findings indicate that hotels’ service recovery strategies influence the customers’ satisfaction with differences among these types of strategies.

Shammout et al (2014) examined the impact of complaints' handling on customers' satisfaction using commercial banks' clients in Jordan. Compliant handling which is the independent variable was disaggregated to service recovery, service quality, switching cost, service failure, service guarantee and perceived value while customer satisfaction was employed as the dependent variable. Descriptive
statistics, simple regression analysis and t-test was employed in analyzing the data. The results of the research showed that there is a statistically significant impact of the overall dimensions of complaint handling (service recovery, service quality, switching cost, service failure, service guarantee, and perceived value) on customer satisfaction.

Nwokorie (2016) investigated service recovery strategies and customer loyalty in selected hotels in Lagos State, Nigeria. Data for the study were gathered through a structured questionnaire and analyses were carried out using inferential statistics, while the study hypotheses were tested using the regression technique. The study revealed that there is significant relationship between service recovery strategy, time, customer loyalty and customer satisfaction. The study concludes that effective recovery efforts have a significant impact; hence compensation was among recovery strategies adopted by most hotels studied.

Zheng, Xueming and Minghua (2012) examined the dynamic effects of service recovery on customer satisfaction in Chinese Mobile Phone Markets. Descriptive statistics, granger causality test and Bayesian method was employed in analyzing the data. The empirical results surprisingly reveal that apology-based service recovery efforts are the least effective in salvaging customer satisfaction, with the shortest decay and lowest buildup intensity. In contrast quality improvement is the most effective, with the highest buildup and longest decay but slowest buildup toward the peak impact point.

Ibragimova (2016) investigated complaint handling in the Gastronomy Sector: Service Recovery Differences in Vienna and Krasnodar. Descriptive statistics and Pearson Chi-Square were employed in analyzing the data. The study found that successful service recovery positively influences the intention to return. The study also found that in a setting with high customer satisfaction the employee treats the customer with empathy. The study further found that fast service recovery has a positive effect on customer satisfaction. The study also found that the national culture affects the behavior of the employees in the service recovery process.

Tu and Nguyen (2013) carried out an empirical investigation on service failure and recovery at retail banks in Vietnam. A total of 215 customers of these banks were sampled for the study. Structural equation model was employed in testing the hypotheses. The study found that distributive justice positively impact on customer satisfaction with service recovery and overall satisfaction. Satisfaction with service recovery was found to have a strong impact on overall satisfaction. Satisfaction with recovery and overall satisfaction were found to have a significant influence on purchase intent and only satisfaction with recovery positively affects word-of-mouth intent.

Alex and Mpinganjira (2015) examined the role of perceived justice in service recovery on banking customers’ satisfaction and behavioral intentions in South Africa. Data are collected using a structured questionnaire from 281 retail banking customers in Gauteng, South Africa. Descriptive statistics and regression analysis was employed in analyzing the data. The findings show that procedural, interactional and distributive justice positively influences satisfaction and behavioral intentions. Satisfaction was also found to have strong influence on behavioral intentions. The findings point to the need for banks to have in place fair policies and systems for handling service failure.

Empirical evidence on the effect of service recovery on customer retention are mixed. Also, not much has been done in measuring the effect of service recovery on customer retention especially within the Nigerian context. Also, no recent studies have comprehensively covered commercial banks in South East Zone thereby exposing a knowledge gap. Based on the foregoing, this study examined the effect of service recovery on customer retention in the Nigerian banking sector.

**METHODOLOGY**

This study adopted survey design. This study was carried out in Onitsha, Anambra State, South East Nigeria. The customers of six commercial banks were covered in this study. They include Guaranty Trust Bank Plc, Fidelity Bank Plc, Zenith Bank Plc, First Bank of Nigeria Plc, First City Monument Bank, and Union Bank Plc. The research was not able to get the actual number of customers in the six selected commercial banks in Onitsha. Hence, convenience sampling was employed in selecting 300 respondents, fifty from each of the sampled commercial banks. The study made use of primary sources of data generated through structured questionnaire. The collected data were analyzed using simple regression analysis. This was done with the aid of Statistical Package for Social Science (SPSS Version 21).
RESULTS

The regression results are presented in the tables below.

Table 1: Summary of Regression Result

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.840*</td>
<td>.706</td>
<td>.703</td>
<td>1.867</td>
<td>1.904</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Service Recovery  
b. Dependent Variable: Customer Retention

Source: SPSS Version 21

The table 1 above shows that summary of the regression result. The R square (R^2) value of 0.706 indicates that 70.6 percent of the variations in customer retention are explained by variations in service recovery. Similarly, R square adjusted value of 0.703 indicates that 70.3% of variation in the dependent variable is accounted by variation in the independent variable, all things been equal. The Durbin-Watson statistics which is employed to check for autocorrelation recorded 1.904 as its value which is within the acceptable threshold. This shows that the variables used in the model are not auto-correlated and are therefore, reliable for predications.

Table 2: ANOVA Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>4704.657</td>
<td>5</td>
<td>940.931</td>
<td>169.822</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>1959.822</td>
<td>162</td>
<td>3.487</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6664.479</td>
<td>167</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Service Recovery  
b. Dependent Variable: Customer Retention

Source: SPSS Version 21

Table 2 above indicates that the F-test which tests the overall significance of the model recorded a value of 169.822 with a probability value of 0.000 which is statistically significant at 0.05 level of significant. This indicates that service recovery can explain the variations in customer retention. This indicates that service recovery has significant effect on customer retention with banks in Onitsha, Anambra State.

Table 3 Coefficients of the Regression Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>13.024</td>
<td>1.149</td>
<td>11.335</td>
</tr>
<tr>
<td></td>
<td>Service Recovery</td>
<td>.573</td>
<td>.056</td>
<td>.391</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Customer Retention  

Source: SPSS Version 21

Service recovery recorded a t-statistics value of 10.218 with a probability value of 0.000 which is statistically significant at 0.05 level of significance. This implies that service recovery has a significant effect on customer retention in selected banks in Onitsha, Anambra State.

CONCLUSION AND RECOMMENDATIONS

This study covered the effect of service recovery on customer retention in selected commercial banks in Onitsha, Anambra State. Data were sourced from the customers of six selected commercial banks in Onitsha metropolis. The data generated were analyzed using simple regression analysis. The study found that service recovery has a significant effect on customer retention in selected banks in Onitsha, Anambra State. This agrees with the findings of Abou and Abou (2013) that service recovery...
strategies influence the customers’ retention. This is also in line with the findings of Shammout et al (2014) that service recovery has significant impact on customer retention. In the same vein, Ibragimova (2016) in his study found that service recovery has a positive effect on customer retention. The study therefore concludes that service recovery has significant positive effect on customer retention in selected banks in Onitsha, Anambra State. Consequently, by designing an effective service recovery strategy, commercial banks have the opportunity to learn from customer feedback and to exploit this information in order to improve service delivery, reduce service failures, avoid future negative experiences, and consequently reestablish improved customer retention. The study therefore recommended that banks should initiate effective and flexible service recovery strategies that will give timely response to customers’ complaints. Banks should prepare their employees with service recovery strategies that include an immediate and appropriate service failure response. The best service recovery strategies can fix mistakes, repair relationships, and build trust. This can be done by avoiding negative attitude towards the customers and ensuring quick response and remedy to the service failure. Furthermore, banks should direct their frontline employees to be attentive and courteous when dealing with customers especially those that have complaints about services received and explain the importance of apologies and explanations to them. Training and empowerment, supported with recognition and reward programs, are likely to increase frontline employees’ service recovery performance.

REFERENCES


