Customer Retention: Atonement Oriented Recovery Strategies in the Retail Banking Industry in Malaysia

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Abstracts

The service recovery and customer retention has caught the attention of researchers and academics recently. Despite the popularity of the subject, there were still not much known about how the service recovery strategies influenced customer retention in service organizations. Although service firms made the best effort, service failures were inevitable. Service recoveries were the efforts made by firms to bring back aggrieved customer to satisfaction. If recovery strategies were not prompt, proper and effective, the frustrating customers would defect to competitor. Thus, service firms were losing customers and revenues. Customer retention was vital and dominant key to business competitiveness and profitability. The present research tested two dimensions namely, economical and psychological atonement oriented recovery strategies. Data were collected by distributing the structured 58 item-questionnaires to 377 lecturers of Malaysian public universities randomly stratified. Results of the analysis found that all strategies were correlated with customer retention, except the customer oriented recovery strategies. Multiple regression analysis found that, the customer retention variance was explained by 50% of the service recovery strategies. The research has thrown some lights on the understanding of how service recovery strategies have influenced customer retention. Apart from that a new instrument has been developed. It was recommended that future research be conducted in legal services, business consultancy or educational services using such instrument which perhaps would yield more interesting result.

Keywords*: customer retention, service recovery strategies, customer satisfaction*

BACKGROUND OF THE RESEARCH

One of the most important service industries in Malaysia is the banking services offered by banks. The banking industry has a long history in Malaysia. The first bank incorporated was a branch of Chartered Bank of India in 1859. In 1978 local commercial banks recorded further growth as they were supported by local businesses. By December 1999, there were 36 commercial banks in Malaysia (Sudin *et al*, 2004). From the period of year 1990-2001, the banking industry had witnessed the establishment and development of an Islamic banking system in the country (Sudin *et al*,, 2004).

The nature of the banking business has been revolutionized by changes in technology. Local banks in Malaysia are increasingly implementing e-banking channels to improve business efficiency and service quality. The emergence of e-banking in the Malaysian banking sector started back in 1981 when Automated Teller Machines (ATM) was introduced. This innovation was followed by the introduction of tele-banking and later Personal Computer (PC) banking in the 1990s. But the most eminent evolutionary change was the introduction of Internet banking (Rohaya & Nor Hayati, 2014).

The introduction of Internet banking services, in which customers are able to do their banking over the Internet without the use of proprietary software, took place about 10 years later, which was in 2001. This innovation was actually the manifest of the World Trade Organization (WTO) requirements that countries should open up their economies to global competition. In light of this, the banking sector has undergone some deregulation to allow locals to participate in various financial activities and be more competitive. With the globalization and financial liberalization, the Central Bank (Bank Negara Malaysia) embarked on a consolidation exercise where small, under-capitalized banks were directed to merge with stronger banks. The mergers resulted in the reduction of the number of banks from 33 in 1999 to only ten anchor banks by the end of 2000 (Ramayah & Koay, 2012). The changes that took place in the banking services scenario affected customers in one way or another.

Banks that change distribution channels usually face resistance, conflict, and confused customers. The traditional way of banking, which was the brick and mortar branch network, has been the most popular or trusted delivery channel for a long time. A number of studies have been conducted to review the acceptance of Malaysian consumers regarding Internet banking in Malaysia. Suganthi, *et al.*, (2010) found that the vast majority of bank customers still prefer personal interactions when conducting their banking transactions. The customers regard that the personal touch of officers and managers add value to each transaction. This observation is consistent with the finding by Guru, *et al.*, (2010) that almost 90% of Malaysian customers perceived human tellers as very important (Rohaya & Nor Hayati, 2014). Their findings were supported by Ramayah and Koay (2012) that customers still prefer the counter deposit services rather than the automated deposit machines because of the time factor, security, and customer-bank relationship.

Despite the fact that bank employees give the best effort to offer high quality services to customers, failures are bound to happen. Service failures in banks drive customers away (Spyrakopoulos, 2011). Service failures can occur in any dimension of the service and its delivery, including problematic customers (Bailey, 2004), communication difficulties (Bolfing, 1999), and the act of waiting (Laws, 2002). These service failures may be influenced by front-line employees and backroom staff, equipment, and information systems break down.

Perhaps the strongest single factor that causes service failure is the nature of service products themselves, which increase the likelihood of errors, or service failures, and therefore the need for recovery. Most scholars point out that the difference between tangible products and intangible services has increased customer awareness of the likelihood of service failures either from the operational perspective or from the customers' viewpoint (Reichheld, 2000; Gronroos, 2010). For instance, a service is intangible and it is an activity or represents a series of activities which are heterogeneous and simultaneously produced, distributed, and consumed. Each of these characteristics makes it difficult for marketers to understand and to meet customer expectations. Besides, service variability has been identified as on going problem both for marketing and quality managers (Ballantyne, *et al.*, 2005; Hoffman & Bateson, 2007; Lovelock, 2011). Moreover, the customer is often required to participate in the production of the services (Gronroos, 2003; Lovelock, 2003; Zeithaml, *et al.*, 2005).

The unique characteristics of services, especially in tangibility, inseparability of production, and consumption, mean that customer evaluation processes often give bad result. Thus it offers some unique challenges for the management to manage services. Heterogeneity pertains to the variability inherent in the service delivery process whereas perishability refers to the service providers' inability to store or record services. (Hoffmans & Bateson, 2007; Lovelock, *et al.*, 2011).

The service encounter has been described as a social encounter. During the purchase and consumption phase, various phenomena are likely to influence a customer's evaluation process including the customer's mood state. The extent to which an employee understands the script and their roles, and to act out appropriate roles to ensure that there is congruence between the customer and service providers, is very important. There are three underlying customer needs that are security, self-esteem, and fairness. Violation of these needs by poorly designed service systems or uncaring and badly trained service employees will most certainly result in service failures and customer defection to competitors (Lovelock, *et al.*, 2011).

Furthermore, in all service contexts, whether it is customer services, banking or business to business services, service failure is bound to happen. Failure happens even to the best of firms with the best of intentions, and even to those with world-class service systems. To fully understand and retain their customers, firms must understand what customers expect when service failures occur and implement effective strategies for service recovery (Zeithaml & Bitner, 2013).

Service recovery has drawn the attention of researchers and academicians recently. They see that the concept of service recovery as both business practice and focus of marketing study which has evolved over time. The benefits of service recovery, such as better customer loyalty and positive word-of-mouth communications have been highlighted. In the 1990's, public attention turned to the proactive, and strategic role that service recovery can play in customer retention in a competitive market place.

Service recovery strategies are steps taken by the organizations in winning back the customers after the occurrence of service failure incidents. Examples of the strategies include the service firm oriented, the customer oriented, employee oriented, atonement oriented and fairness oriented recovery strategies. Despite their popularity in the service setting, there is still not much known about how these strategies influence customer retention.

Customer retention, an issue which is increasingly important for all businesses but of particular relevance to the service industry like banking. In executing banking services, the building of a long term customer relationship is seen as central to improve business performance (Ennew & Binks, 2009). Besides that, personalized service quality is essential to attract and retain high quality bank customers (Merger & Day, 2006). Apart from that

Reichheld and Sasser (2000) found that by increasing the customer retention rate can have a profound effect on a firm's profitability. Past studies have also shown that a 5% increase in retention rate can translate into an 85% increase in profits for a branch bank, 50% higher profits for an insurance broker, and 30% higher profits for an auto-service station (Hoffman & Bateson, 2007).

Customer retention has become increasingly important because of several changes in the banking services marketing environment. Customers today are difficult to please. They are more educated, demanding and assertive when service failure occurs. Moreover, due to the increased competition, deregulated industries and the information explosion, the cost of marketing in particular is rising substantially. Furthermore, with escalating costs, service firms are getting less and less advertising space. The growth of direct mail marketing and the changes in the channels of distribution used in today's markets are also having a significant impact on customer retention (Hoffman & Bateson, 2007). Due to rapid changes in customer demography, customer retention has become increasingly important to the banking industry in Malaysia (Aliah Hanim, 2013).

Customer retention has a more powerful effect on profits than market share, scale economies, and other variables commonly associated with competitive advantage. Hoffman and Bateson, (2007) had indicated that as much as 95% of profits come from long term customers via profits derived from sales, referrals (positive word-of-mouth advertising) and reduced operating costs (it is five to seven times more expensive to acquire new customers than retaining current customers). Thus, banking service organizations should recover strong customer retention if they want to stay competitive in the business.

Research has shown that resolving customer problems effectively has a strong impact on customer satisfaction, loyalty, and bottom line performance. Customers who experience service failures, but are ultimately satisfied with the recovery efforts done by the firms, will be more loyal than those customers whose problems are not resolved (Zeithaml & Bitner, 2013).

PROBLEM STATEMENTS

Despite the numerous studies conducted on service recovery and customer retention in banking service industry, (Clark, 2010, 2012; Hanson, *et al.*, 1996; Boshoff and Allen, 2010; Ennew & Binks,1996; Boshoff & Staude, 2013; Bolton, *et al.*, 2010) these studies were best described as inadequate as the respondents in these studies were mostly employees of the banks themselves. It seems obvious that little is known among the customers, about how service recovery strategies are related to customer retention in terms of overall satisfaction, loyalty, repeat purchase, and word-of-mouth communication in the banking industry.

Moreover, some of the previous studies used bank managers (Engku Ngah, *et al.*, 2008; Rohaya & Nor Hayati, 2014; Ramayah & Koay, 2012), bank employees (Clark, 2012;

Boshoff & Allen, 2010), and undergraduates students as respondents (Matilla, *et al.*, 2010; Smith, *et al.,* 1999; Smith & Bolton, 1998; Ching Liu, *et al.*, 2010). However none of the previous researchers used university lecturers as respondents and neither have they related service recovery to customer retention in Malaysia.

Therefore it is now clear that there are gaps in the relevant theories, practical aspects and empirical evidences, concerning the issue of service recovery strategies and customer retention in Malaysia. Thus an empirical study is needed to investigate and fill up these gaps.

This paper attempts to answer the following research questions: First, what are attonement oriented recovery strategies *i.e*. economic and psychological oriented atonement that correlate with customer retention? Second, how much atonement oriented recovery strategies *i.e*. economic and psychological oriented atonement could explain the customer retention variance?

The objectives of this paper are two folds: first, to identify which service recovery strategies (atonement oriented) that are related to customer retention. Secondly, to statistically measure how much of the service recovery strategies (atonement oriented) influence the customer retention.

SERVICE RECOVERY STRATEGIES

Acoording to Zeithaml and Bitner (2013), "*Service recovery refers to the actions taken by an organization or service supplier in response to a service failure*". This definition is supported by Andreassen (2000) and Johnston, (2005) who says "*Service recovery refers to the actions a supplier takes in order to seek out dissatisfaction and as a response to poor service quality i.e. service failure"*. Zemke and Bell (2000) defined service recovery as a …."*thought-out, planned process for returning aggrieved customers to a state of satisfaction with the firm after a service or product has failed to live up to expectation".*

Service recovery thus refers to the actions of service firms in response to service failure. The objective is to maintain the business relationship with the customer. This argument was based on the premise that customer satisfaction ensures customer loyalty, repeat sales and positive words of mouth communications (Boshoff & Staude, 2013). Effective service recovery also leads to enhance perceptions of the quality of the products and service already bought enhanced perceptions of the firm's competence, and a favorable image in term of perceived quality and value (Kelley & Davis, 2004, Boshoff, & Staude, 2013).

Lovelock *et, al.*, (2011) stated that service recovery is the ability to put things right for the customer when the customer perceives something has gone wrong. That is to say, an effective service recovery system can turn around even an initially serious customer complain, to the point where 83% are likely to remain loyal to the firm if their expectations of complaint resolution are exceeded. Not surprisingly, only 23% of customer who had a serious problem but never complained intent to remain brand loyal. Unfortunately, due to the low level of complain satisfaction reported by most industries in the study, today's complaint-handling practices have only a marginally positive impact on customer retention.

Service recovery is an umbrella term for systematic efforts by a firm to correct a problem following a service failure, in order to retain customer's goodwill. Service recovery effort plays a crucial role in achieving or restoring customer satisfaction (Lovelock *et, al.*, 2012). In every organization, things may occur that have a negative impact on its relationships with customers. The true test of a firms' commitment to satisfaction and service quality is in the way it responds when things go wrong for customers (Lovelock *et al.*, 2011). Effective service recovery requires thoughtful procedures for resolving problems and handling disgruntled customers. It is critical for firms to have effective recovery strategies, as even a single service problem can destroy a customer's confidence in a firm under the following conditions: i) the failure is totally outrageous *e.g*. blatant dishonesty on the part of the supplier. ii) the problem fits a pattern of failure, rather than being an isolated incident iii) the recovery efforts are weak, serving to compound the original problem rather than correct it (Berry, 2005).

Service employees are expected to handle the complaint tactfully. How the complaint is handled may determine whether the customer remains with the firm or defect to new suppliers in the future. The real difficulty for employees is they often lack the authority and the tools to resolve customer problems. This is so when come to arranging alternatives at the company's expense or authorizing compensation on the spot. When complaints are made after the fact, the options for recovery are more limited. The firm can apologize, repeat the service to achieve the desired solution or offer some other form of compensation or atonement (Lovelock *et al*, 2012).

CUSTOMER RETENTION

Customer retention is very important for businesses to stay competitive. It has recently become more importance compared to customer acquisition. In this study the customer retention was measured by four dimensions *i.e*. overall firm satisfaction, repeat purchase intentions, positive words of mouth and loyalty to the firm.

Previous research showed that when customers were satisfied with a firm quality of services, (Maxham III, 2010) customers conveyed positive words of mouth and recommend the firm services to other potential and prospective customers (Soderland, 1998; Susskind, 2010). They also come back more frequent to the firm to buy in larger quantities or in another words the propensity to repeat purchase was very high (Palmer *et al.*, 2010). In addition satisfied customers, were loyal to the firm even though they were offered better perks, discount and other promotional incentives by competitors. Satisfied customers are loyal and hard to defect to competitors (Foster & Cardogan, 2012; Zins, 2011).

Previous researches also found that dimensions such as tangibles (Foster & Cardogan, 2010), firm climate (Clark, 2012; Davidson, 2013), service guarantee (Liden and Skalen, 2013), customer relationship (Boles *et al*, 1997), customer compatibility (Grove & Fisk,1997, Hartline , 2011) , empowerment (Yavas *et al*, 2013, Hocutt & Stone, 1998) , communication (Sparks *et al.*, 2007), feedback (Hoffman & Bateson, 2007), explanation (Conlon & Murray, 2006), speed of recovery (Bitner *et al*, 2009; Boshoff, 2009), economical and psychological atonement (Webster *et al.*, 2010; Levelsque & McDougall,2006) were correlated to customer retention and service recovery satisfaction (Boshoff & Staude, 2013). However previous researches methods and results were weak, varied and mixed. There were gaps in the literature as not much was known how service recovery strategies had influenced customer retention in hotels and restaurants especially in Malaysian contex.

Boshoff and Staude (2013) had conducted a research on customer recovery satisfaction among the bank employee in South Africa. There were only six variables in those questionnaires, in the present research seven more variables were added making the total of the variables to 13 all together. After the pilot study, it was found that too many variables were not good because they were difficult to handle. Therefore one way to reduce data was by using factor analysis. After the variables were factor analyzed, it was found that they grouped themselves into two main factors *i.e*. economic atonement oriented recovery strategies (EAORS), and psychological atonement oriented recovery strategies (PAORS). Thus the following theoretical framework was formulated:

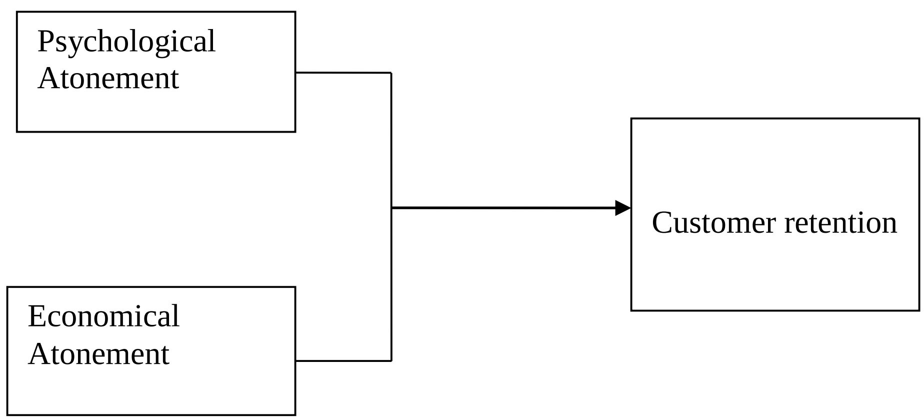

Figure 1: Research Theoretical Framework

HYPOTHESES

Ha1. Economical atonement oriented recovery strategies have significant relationship with customer retention

Ha2. Psychological atonement oriented recovery strategies have significant relationship with customer retention

Ha3. Economical and psychological atonement oriented recovery strategies are predicted to contribute a significant contribution towards customer retention

METHODOLOGY

Data were collected from academics staff of 17 public universities in Malaysia. The population was about 16,642 lecturers. The sample size was 471 and the data was gathered through stratified random sampling (Sekaran, 2012). The number of lecturers responded to the questionnaires were 377 and thus the respond rate was 80.04%. The instrument were adapted from Boshoff and Staude (2013). The instrument reliability was tested using Cronbach Alpha coefficient values which was at .91 and considered as very reliable and acceptable (Nunnally & Bernstein, 1994). The content and construct validity was checked by faculty members and tested using principal component analysis respectively (Hair *et al*., 2008). Data collected were sorted out and analyzed by using SPSS version 23.0.

ANALYSIS AND FINDINGS

The demographic data described the overall picture and characteristics of the respondents taking part in this study. The majority of respondents were Malays (82.2%), followed by Chinese (12.7%), Indians (3.7%), and other races (1.3%). The majority of respondents were also married (68.4%). Their ages ranged from 21 to more than 45 years and the majority were relatively young. About 70 % respondents were in the 21 to 40 years age group. Most of the respondents had a masters degree (65.3%) and a smaller proportion had doctorate degrees (18.8%). Their monthly income showed a wide range, from RM2001 to more than RM6001, and the majority (71.6%) had an income of between RM2001 to RM4000, which commensurate with their age and probably their work experience.

The descriptive statistics shows the characteristics of the respondents as in Table 1

Table 1: Respondents' Demographic Factors

n=377

Characteristics	Measure	
	Frequency	Percentage
Gender		
Male	197	52.3
Female	180	47.7
Race		
Malay	310	82.2
Chinese	48	12.7
Indian	14	3.7
Others	5	1.3
Marital Status		
Married	258	68.5

Single	119	31.5
Age		
21-30		
31-40	115	30.5
41-50	149	39.5
51-60	103	27.3
61 and above	8	2.1
	2	.5
Level of educations		
Bachelor degrees	60	15.9
Masters	246	65.3
Doctorates	69	18.8
Monthly income (RM)		
2001-3000		
3001-4000	137	36.3
4001-5000	133	35.3
5001-6000	62	16.4
6001 and above	25	6.6
	20	5.3
Respondent occupation designation		
Tutors	42	11.1
Lecturers	277	73.5
Associates Professors / Professors	58	15.4

The final result of the PCA shows that the factors loading for each variable was above .60 which indicated that all the items were nicely loaded onto the factors. The total variance explained score ranged between 59.55 to 71.427. The Kaiser-Meyer-Olkin test for sample adequacy score ranged from .805 to .955 which means that PCA is appropriate for these sample. The reliability of each variable was between .843 and .962 which suggested that the items were highly correlated to the factors, thus indicated that the underlying factors of this study were found to reliable and valid. The summaries of the PCA result is shown in Table 2 below.

Table 2: Summaries of the final principal component analysis

Factors	1	2
Psychological Atonement	947	
Economical Atonement		.951
Total variance Explained	64.411	71.427
KMO	.908	.955
Cronbach-alpha	.926	.962

The correlation analysis was conducted. It was found that all the independent variables were correlated to the customer retention as shown in Table 3 below.

Table 3: Summary of test results: the relationship between service recovery strategies and customer retention

n=377

Independent variables	**Economic Atonement**	**Psychology Atonement**
Customer Retention	..536**	.634**
Significant level	.000	.000

** correlation is significant at the .01 level (two tailed)

When the data were treated with multiple regression analysis it was found that the predictor variables explained 50.1% of the customer retention variance. The remaining 49.9% of the variance was due to unidentified and controllable factors. Table 4 shows the summary of the multiple regression analysis result.

Table 4: Summary of the multiple regression analysis

R	**R square**	**Adj. R square**	**Std error**	**F**	**Sig F**
.706	.501	.499	.5264	73.8	.000

The finding is consistent with the study done by Boshoff and Staude (2013), even though their respondents were major South African bank employees. In addition, the finding was partly supported by Rushamie *et al.*, (2014) who found that communication, feedback, tangible and atonement strategies were correlated with customer recovery satisfaction. However, their respondents were universities supporting staff as the context of the research was in educational support services.

DISCUSSIONS AND CONCLUSION

From the above analysis, it can be concluded that customer oriented recovery strategies, and atonement oriented recovery strategies were significantly related to customer retention in the retail banking industry.

The study findings were supported by many researches before which mostly had been conducted on airlines, hotels and restaurants using hypothetical scenario method among college students (Matilla, 2011; Matilla & Mount, 2013) and banks employees for example studies done by Boshoff and Staude (2013) in South Africa and Clark (2012) in United Kingdom, just to mention a few.

The finding of this study that intended to provide further understanding on the nature of customer retention in the context of service recovery management practices was thus restricted to the definitions and depending on the operationalizations of these construct under study.

The major contribution of the research was that it had uncovered the two main factors that influenced the customer retention in service organizations *i.e*. the retail banking in major cities in Malaysia. Another humble contribution of the study was that a new survey instrument has been developed. Though it could not be used directly, but with some modifications, it is a good questionnaire that could be used across the industry.

Service organizations managers are hard pressed for defecting customers. They should retain customer in order to be competitive and stay in business. Partly due to globalization and consumer movement, the competition is stiff nowadays and service managers facing great challenges ahead. The sophisticated customers are difficult to please. Their expectations are getting higher and higher everyday. This research presented descriptive strategies of retaining customers. These are the effort to report information that will be beneficial to service managers especially in hospitality industry. Even though the study have limitations, the finding of the study generally shows that further understanding on the recovery strategies can be gained by studying the role of firms, customers, employees and atonement in the process of retaining customers and making the firm stay competitive. The strategies drawn from the finding that the whole organizations have to work in tandem and synergize effort because the nature of service that the delivery process involved many, right from the backstage to the frontline customer contact employees. After a service failure incidents had occurred, the service recovery strategies are very important to retain customers to satisfaction in hospitality industry in Malaysia.

It was recommended that the next research in future should be using different group of respondents. For example, data were collected from both service providers and customers. Data collected from more than one sources were expected to give better result .Instead of comparing two data *i.e*. between that of hotels and retail banking for instance, analyzing data from both customers and employee at the same time would give more interesting results (Summers, 2010). A few researches had been conducted on service recovery using customer perceived justice need either as moderating or independent variables (Blodgett *et al*, 2007; Sparks, *et al*, 2011; Collie *et al*, 2011), however their findings were varied and mixed, thus the issues were still unresolved. Future researchers might be interested in investigating the phenomena.

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