



THE IMPACT OF BANK RESPONSES TO RECOVERY SERVICE SATISFACTION

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ABSTRACT

In the context of harsh competition in the retail banking sector in Vietnam, how to retain existing customers through effective responses to service failure has become a critical focus point of bank executives. Satisfactory responses to customer complaints may help to increase repurchases and positive word of mouth about the bank. Understanding the effects of organizational responses to customer complaint helps commercial banks develop more effective service recovery strategies and enhance customer satisfaction. This research explores the impacts of organizational responses to customer complaints in the Saigon Commercial Bank (SCB). The study investigates the impact of apologies, attentiveness, explanation, facilitation, promptness and redress on satisfaction with service recovery. The effect of recovery satisfaction on post purchase behavioral intentions (repurchase intentions and positive word of mouth intentions) is also examined. Structural equation model analysis reveals that organizational responses including apologies, attentiveness, explanation, promptness and redress have a significantly positive relationship of satisfaction with service recovery.

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Keywords: Organizational responses, Recovery satisfaction, Saigon commercial banks, Service failure, Repurchase intentions, Vietnam.

Contribution/ Originality

This study is one of very few studies which have investigated the impacts of organizational responses to customer complaints in Vietnamese retail banking sector, especially for Saigon Commercial Bank.

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1. INTRODUCTION

The Vietnamese economy has recently generated a growth opportunity for banking service providers due to higher economic growth rates and low penetration levels. Only 20% of the country's population have bank accounts, according to Viet Nam's Retail Banking Report (Year 2012). In line with the WTO requirements, the Vietnamese Government has undertaken a restructuring of the banking system, a gradual opening to foreign investments through granting licenses for establishing wholly foreign-owned banks, the partial privatization of state owned banking institutions by reducing government ownership and raising the maximum stake holding rate of a single strategic foreign investor in domestic banks. Vietnam's retail banking industry has become a potential market for both local and foreign banks. As a result, competition among the banks has sharply increased.

Customer satisfaction with high quality services has become much more important to banks. Banks try to provide high quality services to satisfy their customers. Despite their best efforts, complaints are inevitable because "mistakes are unavoidable features of service delivery" (Boshoff, 1997). Service recovery involving in proactive and immediate efforts to minimize bad effects on service assessment needs more serious attention (Michel, 2001). However, studies concerning the relationship between organizational responses to service failure and post-purchase intentions have been limited in Vietnam, especially in the retail banking sector. This research studies the impacts of organizational responses to service failures on post-purchase behavioral intentions at Saigon Commercial Bank Branches in Ho Chi Minh City.

2. LITERATURE REVIEW

2.1. Service Failure

Service failure is defined as failing to meet the customer's expectations (Hoffman *et al.*, 1995). Understanding the root causes of service failure may help the firm to identify the most effective response. In New Zealand and Australia's retail banking, (Colgate and Hedge, 2001) classified service problems into different groups in order to investigate the impact of each category of service problems on the switching decisions of banking customers. Service failure leads to customer dissatisfaction, negative responses to third parties and increasing negative word-of-mouth intentions, or defecting to another service provider (Kelley *et al.*, 1993; McCollough *et al.*, 2000).

2.2. Customer Complaints

When service failure occurs, customers raise their voice about these problems. Complaints can be defined as the customer's protest reaction to the performance (Singh and Widing Robert, 1991). A complaint is an action taken by an individual who involves communicating something negative regarding a product or service, either to the firm manufacturing or marketing that product or service, or to some third party organizational entity (Garrett Dennis *et al.*, 1991). According to Day and Ash (2007) only a few of dissatisfied customers probably voice their complaints directly to firms while others are likely tell others or even engage in spreading something bad about the firm to their friends

or their acquaintances. Exploring the importance of customer complaints, [Crie and Ladwein \(2002\)](#) reported that constructive information coming from customers' complaints is likely to help the firm recognize problems, limit service failures and maintain customer loyalty to the firm.

2.3. Service Recovery

Service recovery involves proactive and immediate efforts to minimize bad effects of service assessments ([Michel, 2001](#)). [Bell and Ridge \(1992\)](#) define service recovery as all the actions that should be taken by organizations to move a customer from a state of disappointment to a state of satisfaction. Effective service recovery is crucially important to seek successful solutions to solve service failures and customer complaints ([Boshoff, 1999](#)). The benefit of service recovery is that after service failure has occurred and change customer satisfaction and the loyalty of customer is higher ([Bailey, 1994](#)). [Lovelock et al. \(2002\)](#) claimed that service recovery plays a crucial role in achieving and recovering customer satisfaction.

2.4. Organizational Responses

[Lewis and McCann \(2004\)](#) identify actions taken by service providers in response to a service failure may comprise a combination of psychological and tangible activities. The organizational responses are behaviors that firms take, in response to failures including a combination of perception and behavior efforts ([Cengiz et al., 2007](#)). In the retail banking sector, according to [Lewis and Spyropoulos \(2001\)](#) different banking responses are more effective for particular service failures. The strategic organizational responses in this research can be classified as: apologies, attentiveness, explanation, facilitation, promptness and redress.

2.4.1. Apology

Providing a sincere apology to a customer is one of the most effective techniques in service recovery. [Ekiz and Huseyin \(2007\)](#) defined an apology is a psychological exchange or what is offered by service providers in place of the problem or distress which the customer suffered. The relationship between an apology and customer's service recovery satisfaction has been well documented, for example, [Boshoff and Leong \(1998\)](#) found that an apology has a strong effect on service recovery satisfaction. Similarly, [Johnston and Fern \(1999\)](#) found an apology and emphasized that an apology plays an important role in customers' satisfaction with a bank's service recovery efforts.

2.4.2. Attentiveness

Attentiveness is defined as the interaction and interpersonal communication between an organization and unhappy customers ([Davidow, 2000](#)). ([Davidow, 2003](#)) indicated that attentiveness refers to the care and attention by which a company demonstrates empathy for the customer's problems caused by a service failure and a willingness to help them. Previous researches reported that this dimension of recovery strategy contains a service provider's willingness to listen to the

complainant (Plymire, 1991; Whitely, 1994, as cited in Davidow (2000)). According to Davidow (2000) the interaction between customers and organizational representatives has the largest impact of any dimension on customer satisfaction and repurchase intention.

2.4.3. Explanation

Explanation is related to the information provided by an organization to explain why a problem happened and what the firm will do to avoid the same problem again (Ekiz and Huseyin, 2007). The best approach is taking blame by service providers themselves, rather than blaming a third party. Davidow (2003) also concluded that explanations could increase an organization's credibility for customers. In determining the post-complaint customers' behavior, Davidow (2000) found that explanation has strong effects on recovery satisfaction, repurchase and word-of-mouth intentions. Moreover, the way the explanation is interpreted can play an important role in restoring the complainant's satisfaction. Baer and Hill (1994) claimed that explanations in written responses could help to increase satisfaction. Martin Charles and Denise (1994) reported that higher level managers who offer explanations have a positive effect on recovery satisfaction and repurchase intentions.

2.4.4. Facilitation

Davidow (2000) defined facilitation which refers to the policies, procedures, processes and structure that an organization has in place to encourage dissatisfied customers to raise their complaints, including clear complaint handling policies, a toll-free number and a consumer-friendly reputation. The importance role of facilitation in service recovery was investigated by many previous researches. Blodgett *et al.* (1995) found that the opportunity for customers to express inconvenient feelings and opinions to a company had a strong negative effect on negative word-of-mouth intentions and a positive effect on repurchase intentions. In the survey on Turkish bank's customers, (Cengiz *et al.*, 2007) pointed out those facilitating customers to present feelings and opinions impacts positively on customers' satisfaction with service recovery.

2.4.5. Promptness

According to Davidow (2003) promptness refers to the speed that the company responds to the customer's complaints. Prompt responses are considered as a key successful factor in customer complaint management (SOCAP, 1994). Kincade *et al.* (1992) showed that the amount of time taken to deal with the customer's complaint had a significant impact on recovery satisfaction and post-complainant behavior. (Johnston and Fern, 1999) pointed out that most of the customer expected the problem should be put right immediately or quickly. In the context of Greek banks, (Lewis and Spyropoulos, 2001) posited that prompt response had a positive effect on recovery satisfaction. The same result was provided by Cengiz *et al.* (2007) in their study on Turkish banks' customers.

2.4.6. Redress

According to Diener and Greyser (1978) redress refers to the "fair settlement or fix" of the

problem caused by service failure. After service failures have occurred, the complainants expect to receive some value added atonement for their inconvenience caused by service failures and this also shows that the service providers demonstrate some understanding (Zemke and Bell, 1990). Davidow (2003) found that redress included “the benefits or response outcome” that a complainant received from service provider in response to the complaint. Redress may be refunds, discounts, coupons, gifts, replacement and other forms of atonement offered to customers following a service failure (Goodwin and Ross, 1992; Blodgett *et al.*, 1997; Tax *et al.*, 1998). A fair fix of the problem (redress) had a dramatic impact on customers’ recovery satisfaction (Blodgett *et al.*, 1995). Similar results were reported by McCollough *et al.* (2000) fairness in fixing the problem had a positive effect on recovery satisfaction.

2.5. Customer Satisfaction

According to Maxham (2001) customer satisfaction is an emotive evaluation of the experience associated with service performance. It can be defined as a customer’s evaluation on a specific transaction (Bitner *et al.*, 1990) or as a cumulative evaluation, including a linear combination of satisfying experiences associated with specific service encounters of a particular firm. Zemke and Bell (1990) concluded that prompt and effective responses to customer’s complaints increase customer’s perceptions of the firm’s competence and the quality of all products or services provided by the firm. Similarly, Smith and Bolton (1998) found that customers would express higher levels of satisfaction and increase their post-purchase intentions when they received excellent service recovery from the firm. Investigating the correlation between satisfaction and service recovery in retail banking sectors, (Dove and Robinson, 2002) indicated that banking customers who believe their problems have been resolved have much higher levels of satisfaction. Duffy *et al.* (2006) also studied the relationship between banks’ problem resolutions and banking customers’ satisfaction, concluded that excellent and effective service recovery efforts leads to enhanced customer satisfaction.

2.6. Post-Purchase Intentions

According to Davidow (2003) complaint handling is judged not by satisfaction with the organization’s response, but by post-complaint customer behavior such as repurchase intentions and word-of-mouth intentions. Post-purchase intentions are usually as a signal of future behaviors of the customers (Kuo *et al.*, 2009). It can be defined as customers’ future behavior commitment to repurchase a product or a service and demonstrate their experience associated with purchasing or using the product or service to their relatives (Zeithaml *et al.*, 1996; Rundle-Thiele, 2005; Kim and Chen, 2010). The relationship between customer satisfaction and post-purchase behavioral intentions has been documented. For instance, Blodgett *et al.* (1995) pointed out that satisfaction or dissatisfaction with service recovery efforts provided by the firm would affect whether the customer would stay with or defect from the firm and whether that person would spread positive or negative word-of-mouth about the firm.

2.6.1. Repurchase Intention

Repurchase intention can be defined as the propensity of customers to continue to purchase/use products/services from the same service provider in the future (Fornell, 1992; Maxham and Netemeyer, 2002). It can be viewed as customer loyalty which is the biggest concern by any organization (Qureshi *et al.*, 2009). There is a significant positive relationship between repurchase intentions and customer satisfaction (Maxham and Netemeyer, 2002). Kelley *et al.* (1993) and Stauss (2002) also reported that satisfaction with service recovery can lead to an increased willingness to purchase from the same service provider again.

2.6.2. Positive Word-of-Mouth Intention

Swanson and Kelley (2001) defined that word-of-mouth intentions as the act of telling to others about a satisfactory or unsatisfactory experience of the service or service provider. Information from word-of-mouth is highly reliable that can help to influence customers' intentions to purchase products/services from the firm, as well as their perceptions about a particular firm (Zeithaml *et al.*, 1993, as cited in Maxham (2001)). Maxham (2001) similarly confirmed that customers who perceived fair and effective responses to their service failure by the firm would be engaged in positive word-of-mouth behavior.

2.7. Research Model

Based on the preceding discussed literature, the following conceptual model (Figure 1) and hypothesis were proposed:

- H1: Apologies have a significant positive impact on customer satisfaction.
- H2: Attentiveness has a significant positive impact on customer satisfaction.
- H3: Explanations have a significant positive impact on customer satisfaction.
- H4: Facilitation has a positive significant impact on customer satisfaction.
- H5: Promptness has a positive significant impact on customer satisfaction.
- H6: Redress has a positive significant impact on customer satisfaction.
- H7: Customer satisfaction has a significant positive impact on repurchase intentions.
- H8: Customer satisfaction has a significant positive impact on word-of-mouth intentions
- H9: Repurchase intentions have a significant positive impact on word-of-mouth intentions.

2.8. Research Methodology

The study used a quantitative approach. The research questionnaires were sent to complaint customers by email. Respondents are current customers whose complaint responded by SCB. The sample of 293 is not too large but it can be validated for research purposes. SPSS software was used to analyze descriptive statistics, to test reliability of scales (Cronbach's Alpha), and to do Exploratory Factor Analysis (EFA). AMOS soft was utilized to conduct Confirmatory Factor Analysis (CFA) and Structural Equation Model (SEM) analysis.

2.8.1. Measurement Scales

From nine constructs which are measured by twenty eight variables. In which, measurement scales of Apology (AP), Attentiveness (AT), Explanation (EX), Facilitation (FA), and Promptness (PR) were applied from Davidow (2000) Redress (RED) from Cengiz *et al.* (2007) Satisfaction with service recovery (SA), Repurchase intention (RI), and Positive word-of-mouth intention (WOM) from Maxham and Netemeyer (2002).

2.8.2. Data Collection

Collecting data was carried out by structured questionnaires. Each research concept was measured by a number of different observed variables (items). The seven- point Likert scale – from (1) “strongly disagree” to (7) “strongly agree” was utilized. All questions were translated into Vietnamese. To ensure that respondents have the right meaning of questionnaires, the pre-test stage with ten respondents chosen was conducted for further adjustment.

2.8.3. Sample Description

Table 1 presents the structure and characteristics of the sample as below.

Table-1. Descriptive statistics of qualitative variables

Attributes	Characteristics	Frequency	Percent (%)
Gender	Female	149	50.9
	Male	144	49.1
Age	Less than 22	18	6.1
	From 22 to less than 30	90	30.7
	From 30 to less than 50	128	43.7
	Over 50	57	19.5
Education	High school	15	5.1
	College	93	31.7
	University	133	45.4
	Postgraduate	52	17.7
Income	Less than 5 millions	42	14.3
	From 5 to less than 10 millions	78	26.6
	From 10 to less than 20 millions	127	43.3
	Over 20 millions	46	15.7
Job	Officer	133	45.4
	Entrepreneur	90	30.7
	Student	36	12.3
	Housewife	11	3.8
	Other	23	7.8
Length of relationship	Less than 06 months	22	7.5
	From 06 months to less than 12 months	48	16.4
	From 1 year to less than 3 years	127	43.3
	Over 3 years	96	32.8

3. DATA ANALYSIS AND FINDINGS

This part presents all the results of data analysis and hypothesis testing.

3.1. Reliability Testing

Factor analysis and Cronbach's Alpha were used to test the reliability of the measurement. The items which had a Corrected Item-Total Correlation less than 0.5 were eliminated. The results are shown in Table 2.

3.2. Confirmatory Factor Analysis

Confirmatory Factor Analysis was conducted to confirm the constructs that were extracted from the EFA analysis. Model fitness which referred to the fitness between the hypothetical model and the sample data is the most concern in implementing the CFA. The results of unidimensionality, convergent validity, discriminant validity as well as construct validity are displayed as follows:

- **Unidimensionality**

The test results that all the model fit indices satisfied common acceptance standards, indicating that the measurement model obtained a good fit with the sample data. The model has $CMIN = 426.072$, $df = 288$ and $P\text{-value} = 0.000$. All measures are satisfied because of $CMIN/df = 1.479$ (< 2), $TLI = 0.977$, $CFI = 0.981$ and $IFI = 0.981$ (> 0.9), $RMSEA = 0.041$ (< 0.08). Therefore, the model fitness is acceptable, and all measurement scales in the measurement model exhibited unidimensionality.

- **Convergent validity**

Convergent validity refers to the degree to which a measure is correlated with other measures. According to [Anderson and Gerbing \(1988\)](#) a measurement scale obtains convergent validity if all its standard regression weights are greater than 0.5 and statistically significant at p-values less than 0.05. In this study, all standard regression weights satisfy the above respective standard demonstrating that all measurement scales in this research model attained convergent validity.

- **Discriminant validity**

[Koufteros \(1999\)](#) reported that testing discriminant validity is one important analysis which should be conducted. According to [Fornell and Larcker \(1981\)](#) one can assess discriminant validity by comparing the Average Variance Extracted (AVE) and Shared variance. From the results shown at Table 3, the AVEs for the latent variables range from 0.779 to 0.905 and the AVE for each construct is significantly higher than its individual squared correlation. It can be concluded that discriminant validity between each two constructs is supported.

- **Construct validity**

Construct reliability is a measure of the overall reliability of a collection of heterogeneous but similar items. Table 2 shows that all indices utilized to evaluate the reliability of the constructs exceeded the respective common acceptance levels. Particularly, Cronbach's alpha of each factor is greater than 0.7; the composite reliability of all constructs is greater than 0.7; and the value of AVE of each factor is also greater than 0.5. Hence, all constructs in the hypothetical model reach a high reliability.

Table-2. Construct Reliability, Factor Loading and AVE in CFA

Item	Standardized factor loading	Construct Reliability ^a	AVE ^b
Apology – AP			
AP3	.871	0.913	0.779
AP2	.852		
AP1	.923		
Attentiveness - AT			
AT3	.919	0.94	0.839
AT2	.937		
AT1	.891		
Explanation - EX			
EX3	.884	0.917	0.786
EX2	.918		
EX1	.857		
Facilitation - FA			
FA3	.910	0.93	0.815
FA2	.914		
FA1	.884		
Promptness - PR			
PR3	.830	0.918	0.79
PR2	.936		
PR1	.897		
Redress - RED			
RED4	.899	0.927	0.808
RED3	.912		
RED2	.885		
Customer Satisfaction - SA			
SA3	.902	0.942	0.845
SA2	.931		
SA1	.924		
Repurchase Intention - RI			
RI3	.961	0.966	0.905
RI2	.941		
RI1	.952		
Positive WOM Intention - WOM			
WOM3	.908	0.926	0.807
WOM2	.893		
WOM1	.894		

3.4. Estimating Hypothetical Model

Similarly, to measure the structural model fitness is also based on specific standards used in the measurement model. The results in Figure 1 present the goodness-of-fit indices of the full model. Estimation of the model shows a good value of 2.066 in the Chi-square/df, acceptable. The model fit was assessed by using other common fit indices: IFI = 0.955, TLI = 0.949, CFI = 0.954 and RMSEA = 0.060. Briefly, the full structural model is considered to fit the sample data reasonably. Table 3 presents regression weights of organizational responses with satisfaction with recovery, of recovery satisfaction with both repurchase intentions and positive word-of-mouth intention. From this, only the relationship between facilitation and recovery satisfaction is not statistically significant at the 95% confidence interval. Consequently, this relation should be eliminated from the model to attain a better one.

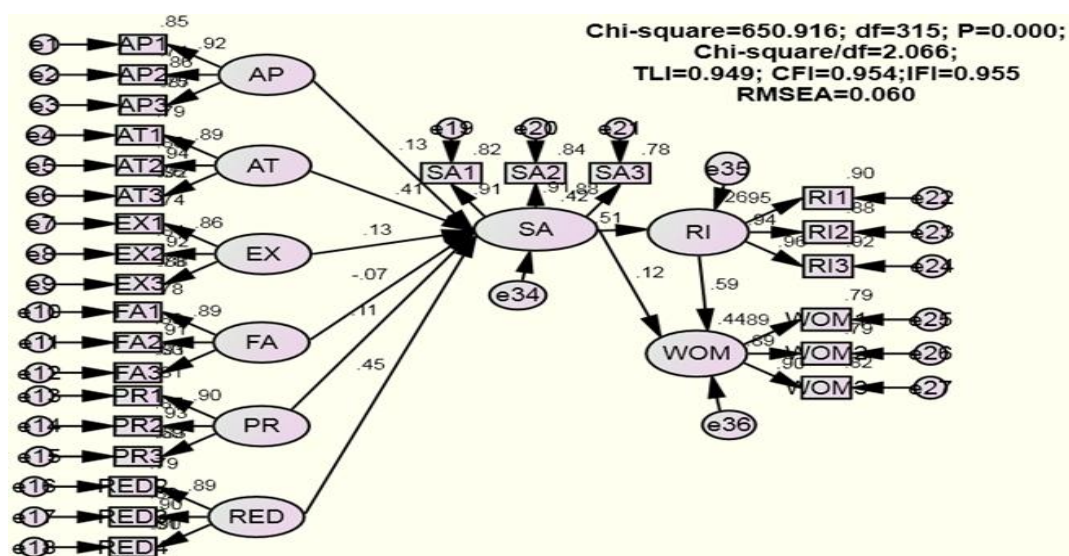


Figure-1. The hypothetical model (standardized)

Table-3. Regression Weights of the hypothetical model

Parameters	Standardized regression weights	Regression weights	S.E.	C.R.	P
Satisfaction with recovery ← Apology	.128	.138	.055	2.532	.011
Satisfaction with recovery ← Attentiveness	.408	.376	.047	7.918	***
Satisfaction with recovery ← Explanation	.135	.132	.049	2.667	.008
Satisfaction with recovery ← Facilitation	-.072	-.064	.045	-1.430	.153
Satisfaction with recovery ← Promptness	.107	.111	.052	2.127	.033
Satisfaction with recovery ← Redress	.450	.436	.051	8.546	***
Repurchase intentions ← Satisfaction with	.509	.585	.065	9.056	***
Positive WOM intentions ← Satisfaction with recovery	.124	.124	.058	2.125	.034
Positive WOM intentions ← Repurchase	.588	.509	.052	9.752	***

3.5. Estimating Adjusted Model

In Figure 2, after deducting the relation between facilitation and recovery satisfaction out of the hypothetical model, most of the model fit indices of the adjusted model are acceptable, with CMIN/df=2.065 (<3), TLI=0.949, CFI=0.954, IFI=0.954, RMSEA= 0.06 (>0.8). It is easy to find that the fit measures of the adjusted model are not much different from the former one. As a result, it is obvious that the adjusted model acceptably fits the sample data.

Table 4 shows that at the 95% significance level, all the relations between the five components of organizational responses to complaints and recovery satisfaction, between recovery satisfaction and post purchase intentions and between repurchase intentions and positive word of mouth intentions are statistically significant. With the p-value being much less than 0.05, the hypothetical positive relationship between recovery satisfaction and repurchase intentions is supported ($\beta_7 = 0.504$). Both hypothesis eight and hypothesis nine are acceptable at the significant level $p < 0.05$. This means that both recovery satisfaction and repurchase intentions have a positive influence on positive word of mouth significantly. The research results can be summarized as below:

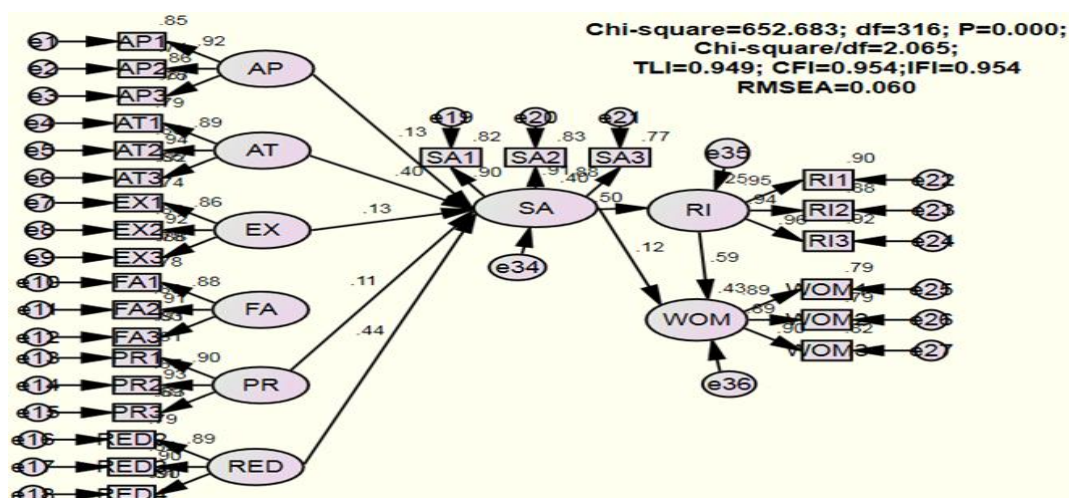


Figure-2. The adjusted model (standardized)

Table-4. Regression Weights of the adjusted model

Parameters	Standardized regression weights	Regression weights	S.E.	C.R.	P
Satisfaction with recovery ← Apology	.133	.141	.055	2.582	.010
Satisfaction with recovery ← Attentiveness	.402	.365	.047	7.696	***
Satisfaction with recovery ← Explanation	.126	.121	.049	2.452	.014
Satisfaction with recovery ← Promptness	.107	.109	.052	2.088	.037
Satisfaction with recovery ← Redress	.439	.420	.051	8.233	***
Repurchase intentions ← Satisfaction with recovery	.504	.585	.065	8.933	***
Positive WOM intentions ← Satisfaction with recovery	.122	.123	.059	2.097	.034
Positive WOM intentions ← Repurchase intention	.587	.510	.052	9.754	***

4. IMPLICATIONS FOR THE CASE OF SAIGON COMMERCIAL BANK (SCB)

From the research findings, there is strong evidence showing that a model incorporating five components of organizational responses to customer complaints is supported (Table 4). These findings would help to develop and improve the complaint recovery responses in the context of SCB in order to restore dissatisfied customers.

The research findings imply that SCB should pay attention to the dimension of a fair fix for problems or added value compensation/ atonement. The findings showed the major importance of interpersonal skills of frontline employees who are directly facing and dealing with customer complaints. Although, the impact of an apology on recovery satisfaction is not as strong as the impacts of redress, attentiveness and explanations; However, Boshoff and Leong (1998) emphasized that an apology is the necessary first step in service recovery attempts. Davidow (2000) also reported that an apology, in particular, is important because it costs nothing yet significantly increases positive word-of-mouth activity. It implies that providing an apology to complainants should be given a high priority and be accompanied by other responses such as attentiveness, explanations or compensation. Finally, it is likely to state that customer complaints contain constructive information which can help the bank to recognize their problems, recover their service failures and maintain customers' loyalty. Therefore, establishing clear complaint procedures can help customers to know how to complain and where to log complaints, should be highly considered.

5. LIMITATIONS AND FUTURE RESEARCH

While this research's results help to deeply understand about the effects of organizational responses to customer complaints on recovery satisfaction as well as the effect of recovery satisfaction on post purchase behavioral intentions, some limitations also exist. Firstly, chosen target respondents in this research have only included the customers who have raised their complaints to SCB branches in Ho Chi Minh City. This situation might lead to the limitation of generalization of the results for the whole SCB. Indeed, respondents in different regions in Vietnam might cause differences in psychology and behaviors of customers. Therefore, future research should expand the respondents throughout the country. Additionally, to obtain generalized findings for the whole of Vietnam's retail banking system, it is possible to conduct a replicate study with the inclusion of other commercial banks' respondents.

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