

Service Failures and Recovery Strategies in Retail Banking: A Study in Madurai City

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Abstract

Retention of customers in the bank is a challenge to bankers. Customers have many options for banking, and if they meet with any service failure and not responded properly, they immediately consider switching to other banks. Building customer loyalty and satisfying customers are important at this juncture. The article discusses the service failures and recovery strategies in retail banking in Madurai city.

Keywords: Service Failures, Service Recovery, Retail banks.

Introduction

In an era of mature and intense competitive pressures, many firms are focusing their efforts on maintaining a loyal customer base. This is particularly true in the financial services sector where deregulation has created an environment that allows consumers a considerable choice in satisfying their financial needs. In response, many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. Improving customer satisfaction, and at this moment retention rates, can come to a variety of activities available to the firm. The existing evidence suggests that major gains in customer satisfaction are likely to come from improvement in:

1. Service quality
2. Service features; and
3. Customer complaint handling

Service Failures and Customer Expectation of Service Recovery

The service feature is, typically determined by elements such as the nature of the service encounter, the cause of the problem, and the psychographics of the individuals involved. The service incidents are related to:

Employee responses to customer need such as customer preferences and admitted customer error;

Employee's responses to service failures, such as unavailable or slow service; Unprompted employee actions, to include attention paid to the customer and performance under adverse circumstances; and Problem customer; encompassing lack of co-operation.

The service failures may also be classified into

1. Service provider error;
2. Customer error and
3. Associated organization error.

Customer's Expectations for Service Recovery

If the customer perceives a service failure, concerning any dimensions of service quality, then their service expectations are not met. Why this happens, another set of customer expectations become active, service recovery expectations. These service recovery expectations among the customers are:

1. To receive an apology for the fact that the customer is inconvenienced;
2. To be offered a 'fair fix' for the problem;
3. To be treated in a way that suggests the company cares about the problem, about fixing the problem, and about the customer's inconvenience; and
4. To be offered value-added atonement for the inconvenience.

Service Failures

Service failures are identified and classified in retail banking as

1. Banking procedures;

Bureaucracy and slow banking; and
Failure to keep customer fully aware of their banking situation.

2. Mistakes

3. Employee behavior and training;

Employee ignorant of certain banking procedures; and
The employee was unwilling or slow to help the customer.

4. Financial/technical failures;

Long and unorganized queues;
ATMs out of order;
The limited network of ATMs;
The limited network of branches; and
Incomprehensible statement of accounts, terms of loans, convention, etc.

5. Actions or omissions of the bank that are against the sense of the fair trade.

Review of Literature

Bedman (2016) Mentioned that the service fairness has a significant positive impact on the customer retention in the banking industry. Israel (2015) Showed that high transaction fees, the attractiveness of alternatives, the inconvenience of

bank location, inability to respond to system failure quickly were statistically significant in the prediction of customer switching. Younas and Jan., (2012) Also found that prompt response, material compensation and politeness of employees play important roles in service recovery evaluations in the banking industry in Sweden.

Leins and Sotiris (2001) Identified the important service failures in retail banking are lack of reliability, mistakes, delay in processing, poor interaction with a bank employee and insufficient branches. There are no differences between the men and women in assessing the magnitude of service failures. Upper-income groups are more dissatisfied with the service and also the recovery strategies of the banks. The customer expectations for service recovery are related to the length and financial importance of their relationship with the bank. Spreng et al., (1995) Found that service recovery performance influenced overall satisfaction and behavioral intentions such as word-of-mouth communications and repurchase. The satisfactory problem resolution is resulting in enhanced repurchases intentions. Power (1992) Stated that one of the most important benefits of effective service recovery is the prevention of customer defection to other providers. Customer retention is a significant business aim since it is now widely accepted that gaining new customers is more costly than keeping existing ones. Jones and Sasser (1995) Found that there is an on going relationship between the service provider and the customer. The customer satisfaction is based on an evaluation of multiple inter action. Satisfaction is considered as a composite of overall customer attitudes towards the service provider that incorporates some measures. Mc Dougall and Levesqn (1994) Identified two different segments in retail banking namely performance segment and convenience segment. They suggested that to serve the performance segment; financial institution should focus on providing training and support systems that enable service providers to offer error-free transaction. The institution should have service recovery procedures that seek to redress the problem. To serve the convenience segment, financial institutions should focus on the location aspects and make personal encounters more responsive to speed.

Need for the Study

Customer switching in service environments, which is customer switching to one service provider from another, is a well-researched topic in the services marketing and relationship marketing literature. Much of the work has been in the realism of profitability of customer retention or minimization of “customer churn” in services markets by studies carried out by Reichheld (1996) , Loveman (1998) and Garland (2002) . Minimization of customer churn is a priority for most banks. Personal retail banking is a typical subscription market characterized by customers not regularly switching among reparative of brands (unlike fast moving goods), and giving most of their banking business to one or two suppliers for long periods of time. Customer switching, defection or exit research in retail banking has received recent attention from authors such as Ewnew and Briks (1996) , Stewart (1998); and Danenberg, Sharp (1999) Hence, the present study focuses on the service failure as the cause for switching behavior among the customers in retail banking.

Objectives of the Study

The specified objectives of the present study are:

1. To reveal the profile of the customers in retail banking;

2. To identify the important determinants of customer exit from the previous bank;
3. To analyze the service failure experienced by the customers in the present bank

Research Design

A descriptive research design is concerned with describing the characteristics of a particular individual or a group. Meanwhile, a diagnostic research design determines the frequency with which a variable occurs or its relationships with another variable. In other words, the study analyzing whether a certain variable is associated with another comprises a diagnostic research study. On the other hand, a study that is concerned with specific predictors or with the narration of facts and characteristics relating to an individual, group or situation and instances of descriptive research studies. The present study is purely descriptive and diagnostic because it explains the characteristics of customers in retail banking and their switching intention.

Sampling Plan

Since the present study focuses on the customers in public, private and new private sector banks, the sample of the study are drawn by a procedure. It is given in the Table-1

Sampling Procedure

S1.No	Particulars	Public Sector Banks (PSBO)	Private Sector Banks (PrSBs)	New Private Sector Banks (NPr S Bs)	Total
1	Number of Branches selected	5	5	5	15
2	Customers per branches	10	10	10	10
3	Number of customers	50	50	50	150
4	Response rate in percent	82.00	78.00	70.00	76.66
5	Total Sample	41	39	35	115

In Madurai district, five each public-private and new private sector banks have been identified for the present study according to the official’s readiness to disclose the customer’s address and also accessibility. Ten each customer are an arbitrarily assigned from each branch. The total number of customers selected for the study is 150 customers. The response rate on the questionnaire among the customers in public,

private and new private sector banks are 82.00, 78.00 and 70.00 percent respectively. Hence the final sample size included for the present study is 115 customers which consist of 41,39 and 35 customers from public, private and new private sector banks respectively.

Determinants of the Customers exit from The Previous Bank

The customer's exit from the previous bank because of several reasons. The switching behaviour is also termed as defection or customer exit (Hirschman, 1970; Steward, 1994) . It refers to the decision a customer makes to stop purchasing particular services or patronising the service firm completely (Bolton and Brmkhurst, 1993) . The antecedents of switching behavior and the customer's exit are several. It is related to service quality and satisfaction (Zeithaml et al.; 1996) . It may be related to specific problems events and non services (Gardial et al., 1996) . Keareneys (1995) identified five major causal factors for customer exit.

1. **Core Service Failures:** Incidents due to mistakes or other technical problems in the service
2. **Service Encounter Failures:** Problems due to the interaction between the service employee and customers
3. **Service Recovery Failures:** Problems are arising due to the failure of the service firm to resolve previous complaints or problems.
4. **Inconvenience:** Incidents where the customer felt inconvenienced by aspects of the service, for example, waiting in queues or operating hours

5. **Pricing:** Problems associated with fees, charges, forces and price deals associated with the service.

The determinants of customers exit in Retail Banking are identified from the reviews (Kelley and Davis , 1994; Reichheld and Sasser, 1990) . The identified determinants are inaccessibility poor in correction, inflexibility among the employees, mistakes, lack of professionalism, rude, waiting time for service, non competitive borrowing rate, unfair fees, lack of information, unfair levy charges, non competitive interest on savings, no financial advice, denied service, un-knowledgeable employees, employees unwillingness to help, less range of banking services, refusal of overdraft facilities, location of the bank, unsatisfactory problem solved and poor response on complaint. The customers are asked to rate the above said 21 determinants at five-point scale namely strongly agree, agree, moderate, disagree and strongly disagree. The mainly assigned are 5,4,3,2 and one respectively. The mean score of each determinant is calculated to exhibit the importance of determinants of customer exit. The one-way analysis of variance has been executed to analyze the significant difference among the customers in three group of banks regarding their perception of the determinants of customer exit. The results are shown in Table 2

Table 2 Mean Score of various Determinants of Customer Exit from Previous Bank

Sl.No.	Determinants	Mean Score among Customers in			F- Statistics
		<i>PSBs</i>	<i>PrSBs</i>	<i>NPrSBs</i>	
1.	Inaccessibility	3.9184	2.8102	2.3143	5.1144*
2.	Poor in Correction	3.8086	3.1143	3.2676	2.0891
3.	Inflexibility among the Employees	3.7914	2.5054	2.8617	3.6309*
4.	Mistakes	3.6808	2.7085	2.5789	3.1416*
5.	Lack of Professionalism	3.9193	2.7642	2.4011	3.8084*
6.	Rude	4.0144	3.6846	3.1144	2.9196
7.	Waiting Time for Service	3.4563	3.5083	2.8986	1.3362
8.	Borrowing Rate	2.5711	3.6173	3.8182	3.0689*
9.	Fees and Charges	2.4403	2.9707	3.4019	3.0114*
10.	Lack of Information	3.8616	3.0243	3.2127	0.9697
11.	Unfair Levy Charges	2.6043	3.4541	3.6164	3.0443*
12.	Non-Competing Interest on Savings	3.7708	3.0946	3.2146	0.8184

13.	No Financial Advice	3.8081	2.9142	2.4567	3.4962*
14.	Denied Service	2.9634	3.2667	2.3089	2.7084
15.	Unknowledgeable Employees	2.8108	3.3144	2.1141	3.2146*
16.	Employees Unwillingness to help	3.8087	2.5337	2.4647	3.3907*
17.	Less Range of Banking Services	2.3034	3.8683	3.4089	4.1126*
18.	Refusal of Overdraft Facilities	3.4241	3.2109	3.1144	0.5081
19.	Location of the Bank	3.1143	2.5696	2.8984	0.9173
20.	Unsatisfactory Problem Solved	3.7808	2.9913	2.5663	3.1339*
21.	Poor Response on complaint	3.8089	2.5037	2.04414	3.2096*
* Significant at 5 per cent level.					

The important determinants of customers exit among the customer in public sector banks are Rude, lack of Professionalism, Inaccessibility and poor response on complaint since the respective mean scores are 4.0144, 3.9193, 3.9184 and 3.8089 respectively. Among the customers in private sector banks, these important determinants are less range of banking services, noncompetitive borrowing rate and rude since its measures are 3.8683, 3.6873 and 3.6846 respectively. The important determinants of customers exit are noncompetitive borrowing rate, unfair levy charges and less range of banking services since its mean scores are 3.8182, 3.4089 and 3.4019 respectively. Regarding the perception on the determinants of customer exit the significant difference among the customers in these group of banks is identified in the case of inaccessibility, inflexibility among the employees, mistakes, lack of professionalism, non competitive borrowing rate, unfair fees and charges, unfair levy charges, no financial advice, knowledgeable employees, employees willingness to help lesser range of banking services, unsatisfactory problem solved and poor response on complaint since the respective 'F' statistics are significant at five percent level.

Service Failure in the Present Bank

Even the best service producers produce errors in service delivery. One reason for this failure is

the labor-intensive nature of many services, which initially leads to more heterogeneous outcomes compared to mechanical production processes. Service performance variability and failures arise from the inseparability of service production and consumption, which prevents quality inspections of most services before delivery. Service marketers should have a large state in understanding both the consequences of failure and how to provide an effective recovery so that they can minimize customer dissatisfaction and defection. The service failure is measured with the help of the customers' attitude on various attributes related to the service. Hess et al. (2002); Narayan das (1998). The identified variables in the service failures in the present study are Wrong Statement, Slow approval of Proposal, Ignorant Employees, Long Queue, ATM out of order, Only a few ATMs, Few Branches, Poor Communication, Incomprehensive Statement, Unjustifiable High rates and Poor Infrastructure facilities. The customers are asked to rate the above said attributes of service failure at five scales namely Very high to Very low regarding their perception of service failure. The assigned marks are from 5 to 1 respectively. The mean score on each attribute related to the customers in three group of banks has been computed separately. The one-way analysis of variance has been executed to find out the significant difference among the three groups of banks.

Table 3 Service Failure

Sl.No.	Determinants	Mean Score among Customers in			F- Statistics
		<i>PSBs</i>	<i>PrSBs</i>	<i>NPrSBs</i>	
1.	Wrong Statement	3.2142	2.5084	2.6162	3.1142*

2.	Slow approval of Proposal	3.9193	3.0241	2.8124	3.0963*
3.	Ignorant–Employees	3.5678	2.7028	2.5671	3.2349*
4.	Long Queue	3.8184	3.1146	2.7086	3.4503*
5.	ATM out of Order	2.9093	2.8184	2.5733	2.3891
6.	Only a few ATMs	3.8184	3.0231	2.7161	3.2181*
7.	Few Branches	2.4562	3.6861	3.8286	3.6083*
8.	Unwilling Employee	3.8587	3.1403	2.9193	2.8968
9.	Poor Communication	3.6808	2.5708	2.6304	3.4582*
10.	Incomprehensive Statement	3.7241	2.8906	2.5492	3.6891*
11.	Unjustifiable high rates	2.5089	3.2593	3.4564	3.0141*
12.	Poor Infrastructure Facilities	3.4064	2.3962	2.6864	3.6933*
* Significant at five percent level.					

The result of Service failure analysis is explained in Table 4.28. The important service failure variables in Public Sector banks are Slow Approval of Proposal, Unwilling Employee, and only a few ATMs since the respective mean scores are 3.9193, 3.8587 and 3.8184. In the Private Sector banks, there are few branches Unjustifiable, High rates and Unwilling employee since its mean scores are 3.6861, 3.2593 and 3.1403 respectively. In the New private sector banks, there are few branches, Unjustifiable high rates, and Unwilling Employee since its mean scores are 3.8286, 3.4564 and 2.9193 respectively. Regarding the perception on the Service Failures, the significant difference among the customers in three group of banks have been noticed in the case of Wrong statement, Slow approval of Proposal, Ignorant Employees, Long Queue, Only few ATMs, Few Branches, Poor Communication, Incomprehensive Statement, Unjustifiable high rates and Poor Infrastructural facilities since the respective ‘F’ statistics are significant at five percent level.

Service Failure Index among the Customers

The Service Failure Index represents the summative view on various Service Failures included in the Present study among the customers. The higher index reveals that the customers perceive more on Service Failure in their bank. The lesser index indicates that there is a lesser service failure in the banks according to the perception of their customers. The Service Failure Index (SFI) is calculated by the score on various attributes in the Service Failure. It is computed by

$$SFI = \frac{\sum_{i=1}^n SSFV_i}{\sum_{i=1}^n MSSFV_i} \times 100$$

Whereas

SSFV – Score on Service Failure in variable

MSSFV – Maximum Score on service failure in each variable.

i = 1..n – Number of variables in service failure

The SFI is confined to less than 21 percent. 21 to 40, 41 to 60, 61 to 80 and above 80 percent. The distribution of customers by their SFI is shown in Table 4

Table 4 Service Failure Index among the Customers

Sl.No.	Service Failure	Number of Customers in			Total
		PSBs	PrSBs	NPRSBs	
1.	Less than 21	15	5	9	19
2.	21 – 40	10	16	9	35
3.	41 – 60	12	8	11	31

4.	61 – 80	11	7	4	22
5.	Above 80	3	3	2	8
	Total	41	39	35	115

The important SFI among the customers is 21 to 40 and 41 to 60 percent which constitute 30.43 and 26.96 percent to the total. The customers with the SFI of above 80 percent to the total. The important SFI among the customers is public sector banks are 41 to 60 and 61 to 80 percent whereas, in private sector banks, these are 21 to 40 and 41 to 60 percent. In the case of new private sector banks, these are 41 to 60 percent and 21 to 40 percent. In total, the mean of SFI among the customers in public sector banks is higher than among the customers in other two groups of banks.

Method of Presenting Service Failure among the Customers

The customers noticed the service failure in the present banks. Their reaction to the service failure is more important to determine the switching behavior among them. The switching behavior depends upon the way of response on the customers' representation on the service failures. It is also called as service recovery performance. The method of presenting the service failures go to the banking authorities are too many, but the present study confines these methods to the presentation, oral presentation, written presentation, complaints and legal notice to the bank officials. The number of customers by their methods to represent the service failure is summarised in Table 5.

Table 5 Method of Presenting the Service Failures to the Bank

Sl.No.	Methods	Number of Customers in			Total
		PSBs	PrSBs	NPRSBs	
1	No Presentation	5	3	2	10
2	Oral Presentation	8	11	12	31
3	Written Presentation	9	12	9	30
4	Complaints	14	11	10	35
5	Legal Notice	5	2	2	9
	Total	41	39	35	115

In total, 8.69 percent of the total customers are not presenting the service failure constitute 8.69 percent of the total. The important methods of presenting the service failures to the banks are complaints and oral presentation which constitute 30.43 and 26.96 percent to the total respectively. The most important method of presenting the service failures to the banks among the customers in public sector banks is complaints whereas, in the private sector banks, it is written the presentation. In the case of new private sector banks, it is the oral presentation.

Recovery Strategies- Suggested

The recovery strategies to be adopted by the banks are:

1. Corrections: making things right, eliminating the cause of the initial dissatisfaction;
2. Exceptional treatment of the complaining customers;
3. Explanations concerning what the bank had done wrong, had not done wrong and what the customer do to avoid the same problem again;
4. Apologies; e.g., from an employer or manager;
5. Compensation: monetary or other;
6. Redirection of the complaint to another employee or higher level of management;
7. Nothing, in response to the complaint.

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