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Service Recovery and Customer Retention among Banks in Ekiti State: Central Bank of Nigeria Cash Swap Policy Experience

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Abstract

The study identified service recovery and the level of retention among bank customers in Ekiti State, Nigeria. The study embraced a descriptive survey research. Customers of eight banks like Access Bank, First Bank, Zenith Bank, GTco, Eco Bank, Wema Bank, Heritage Bank and UBA constituted the study population. Two hundred and forty (240) sample size through simple random sampling was employed. Primary data through administration of structured questionnaire to customers of the aforementioned eight banks in Ekiti State was used. The data retrieved were analysed using linear regression. The study found a significant effect of service recovery on customer retention (beta = 930, t= 12.397, P= 0.000 < 0.05) at 0.05 level of significance. In conclusion, service recovery significantly affects customer retention among banks in Ekiti State. The study recommended that bank management or managers should put up a retention strategy through service recovery that will help retain customers and preventing them from switching to other banks.

Keywords: Customer, Retention, Service Recovery

1. Introduction

One of the germane factors to retain customers and survival of any business organization in recent time is customer satisfaction. However, failures in providing service are usually inevitable due to many mistakes either from human who happens to be the employees of the banks or machine which is also the nature of technology adopted. In view of this, inability to render efficient and hitch-free service resulted in disappointed customers and switching behaviour of such customers (Ghanbari-Baghestan, Esfandiari, Maghazei & Khorasani, 2012). According to Mathew, Jose, Rejikumar and Chacko (2020) while citing Menshikova et al. (2017), the recent development in the banking industry where most of their clients have aligned and embraced the new technology paradigm is posing serious setbacks to the operations of the banks due to numerous complaints. The implications of the service failure are counter-productive and very unpleasant to a business entity, especially the banks and other service providers. The breakdown

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in service and negative customer experience does lead to customer grumblings and bad-mouthing which are not in the short or long-term interests of the banks because of the ease of switching. Consequently, providing efficient customer service has posed more challenges on daily operations among deposit money banks in Nigeria, most especially in the subsequent days of the last reforms.

Since the major target of deposit money banks is to render efficient and real time services to customers to be able to attract and continue to retain both old and the new ones, it is pertinent for the banks to understand the implications of service failure and always ensure a hitch-free provisions of efficient services for competitiveness (Oranusi & Mojekeh, 2019). In contrary, the crisis emanating from the policy introduced by central bank of Nigeria as regards cash swap policy has brought more failure and discord between deposit money banks and their customers. The failure of banks in meeting demands of their customers in terms of withdrawal and payment leaving them to serious frustration. Moreso, not having access to mobile applications due to network and high rate of decline in transaction to mention but few arouse dissatisfaction among customers in the banking sector. With the identified problems, some customers still maintain their stand with their present banks while some switch to other banks where they can maintain if not best but better network as alternative to non availability of cash. To this end, this has left a vacuum for present study to fill. Therefore, this study will evaluate the impact of service recovery on customer retention with respect to banking firm in Ekiti State in relationship with cash swap policy introduced by central bank of Nigeria.

Even though the influence of service recovery in solving customer complaints, correcting customer dissatisfaction, avoiding customer switching, building customer loyalty, keeping customers and boosting customer likeness for one’s products has been seriously raised by researchers, previous studies have majorly concluded the challenge is insurmountable in view of the massive service breakdown experienced by depositors in the country during the Central Bank of Nigeria cash swap policy by customers. Service recovery becomes crucial to retaining customers and keeping them maintaining accounts in the banks. While some banks are busy investing in cutting-edge softwares to outwit others, others are finding it difficult to keep their customers resulting in series of down-time policies at the detriment of their customers (Okeiyi & Agu, 2022). Therefore, this study will be of benefit to management of banks or managers on the need to strengthen their relationship with their prospective customers to ensure retention and enhance their loyalty in the long run.

2. Literature Review

Service Recovery

Service recovery remains a contemporary concept that differentiate between the company’s success and failure particularly in recent time that customers are seen as king and should be treated specially. Service recovery is an exercise embraced by an organisation for the purpose of redeeming an otherwise negative situation that resulted in service failure. Service recovery can be defined as an action embarked on by service provider who happens to be the banks in response to service failure in attempt to deliver service right at the second try (Hamer, 2006). Also, service recovery can be said to be a solution implemented to repair and restore the damage done to customers that results from the provider's failure to deliver a service as it is designed (Johnston & Hewa, 2007). In view of this, service recovery is needed to maintain better relationship to gain their loyalty which is a post satisfaction behaviour.

In terms of service recovery, some particular action plans have to be embraced and implemented by the organizations, most especially, deposit money banks in Nigeria to ensure that the customers are reassured of the reliability of the banks immediately after break down. Service recovery is done to offset the negative reaction of customers to the service failure. Zemke and Bell in Pertiwi, Lubis and Absah (2021) opined that service recovery is a well thought-out plans to regain customers loyalty after a breakdown in order to retain them and keep them as customers for survival of the organisation. Smith, Karwan and Markland (2012) posited that service recovery is an mechanism of competitive advantage that attempts to rectify customer issues during and after the service encounter and before and after complaints.

Techniques of Service Recovery

Assurance: Assurance can be described as reassuring the customers that everything is okay or soon will be made so easy. Assurance is a display of emotional cues that tell the customer to be assured, that all is well and everything in its place. When service breakdown occurs, assurance has a deeper role and more touching meaning (Zemke & Bell, 2000).

Apology: When looking at reasons why customers complain, many different solutions or approaches can be identified. In reality, the purpose behind customers taking the trouble to complain is that customers only want what they were denied. This can be as simple as an apology. So if a company carry out the needs of a complaining customer then such customer tends to give in return by continuing to transact business. Equally, such customer will then comment more positively about the organisation due to the good impression or image built in the mind of prospective customers.

Explanation: Berry and Parasuraman (1991) asserted that a service company like banking firm always have a second chance, even after an initial unfavourable service experience, because recovery activities such as apologies, explanations, compensation can help save customer company relationship and equally curb negative word of mouth to retain the existing customers.

Compensation: Compensation was one of the most considerable coverage about customers' sensations of distributive justice. Compensation and reparation are related to outcomes which prevents negative reputation or impression about the firm. Smith, Bolton, and Wagner (1999) also contributed that higher level of compensation increases customers' sensations of distributive justice. Dinell (1994) argued that findings about compensation have revealed that compensative improvement practice may impressively avert following responsibility of the trials. However, compensation tends to capture few customers due to complex nature of customer behaviour which may be difficult to predict.

Customer Retention

Buttle (2008) defined customer retention as the number of customers undertaking business with a firm at the end of a financial year expressed as a percentage of customers that were active at the beginning of the year. Based on this definition, it can be deduced that customer retention is centred on maintaining long-term relationship to create a re-purchase behaviour. Relationship marketing philosophy as perceived by Gronroos (1994) aimed at establishing long-term customer relationship to deepen the closeness with the customer, providing an avenue to fully understand the needs of customer and thus enhance customer value. The major aim is to maximize on customer life time value (Talak & Albert, 2013). Therefore customer retention is premised on the contribution versus investment in customers and also perceived that customer must be satisfied before he or she can be retained and maintain long time relationship with banking firm.

Customer Retention Measures

Based on the context of the study, the measures of customer retention will be based on customer satisfaction and loyalty.

Customer Satisfaction: Satisfaction is the feeling of pleasure or disappointment of customers which occur from comparing performance expectations with actual performance, meaning that if the performance is below customer's expectations, such customer will be dissatisfied (Giao, Thy, Vuong, Tu, Vinh & Lien, 2020; To, Do, Bui & Pham, 2020; Schirmer, Ringle, Gudergan & Feistel,2018). Customer satisfaction is perceived as customers' evaluation of services after acquiring and utilsing them. Post selection evaluation assessment is based on the previous experience of using such services (Nguyen, Pham, Tran & Pham, 2020; Imran, Hamid, Aziz & Hameed, 2019). Customer satisfaction can be described as a positive outcome obtained from a comparison between service expectation and received performance (Rita, Oliveira & Farisa, 2019; To, Do, Bui & Pham, 2020; Cheng, Gan, Imrie & Mansori, 2019). To this end, customer can never be retained without being satisfied thus the end result of customer satisfaction is retention and loyalty while to dissatisfaction tends to be switching behaviour.

Customer Loyalty: According to Jones in Adeleke and Aminu (2012), Customer loyalty is customer repeating purchase intention of customer services in the future. Loyalty is used to describe the readiness of a customer to continue patronizing a firm's services over a long period of time and on a repeated basis which the services enjoyed might be recommended to friends and acquaintances through word of mouth (Lovelock, 1996). Customer loyalty emanates as a result of an organization's effort in creating a benefits for customers to maintain and increasingly repeat business with the organization (Anderson & Jacobsen, 2000).

Theoretical Framework

Commitment trust theory was propounded by Morgan and Hunt (1994), the theory opined that trust and relationship commitment are very crucial to describe the relationship between banks and their customers and that if present they have the tendency of building relationships among parties. Bostrom (2014) averred that ensuring good relations among parties based on mutual trust and relational commitment between the stakeholders becomes more essential in securing competitive advantage. Therefore, where trust and commitment between customers and service providers is present, there is assurance of a competitive edge over other similar business due to committed customers will continue to bring business to such organisation. Customers expectation on trust and commitment is very high in relationship building process (Abosang & Lee, 2013; Boateng & Narteh, 2016). Service recovery, satisfaction, commitment and customer loyalty are the main components or drivers of relationship marketing theory as anticipated by Tabrani (2018).

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Empirical Review

Oranusi and Mojekeh (2019) analysed the effect of service recovery on the retention of customers particularly among commercial banks in Onitsha, Anambra State. The study sampled three hundred (300) customers of six commercial banks while primary source of data through structured questionnaire was employed. The data gathered were analyzed using simple regression. The result revealed a significant positive effect of service recovery on customer retention. Moreso, Alhawbani, Ali and Hammouda (2021) conducted a study in Egypt on effects of service recovery strategies on the satisfaction of customers. A sample of three hundred and fifty four (354) customers which are the Egypt Internet companies were employed. Data were analyzed using Structural equation. The result showed a positive significant effect of some service recovery strategies and distributive justice on the satisfaction with the recovery.

Moreso, some service recovery strategies have positive significant effect on distributive justice. Furthermore, distributive justice mediated in the relationship between the service recovery strategies and the satisfaction through the recovery. In the study conducted by Liao, Wu, Truong and Do (2022) roles of service recovery and perceived justice on post-recovery satisfaction with respect to mobile commerce in Taiwan. The study adopted an experimental research. The results revealed different level of satisfaction for a different recovery strategy for different types of service failure,. Moreover, perceived justice was affected by service failure magnitude and that service recovery strategy was further affected post-recovery satisfaction. In the same vein, Okeiyi and Agu (2022) examined the influence of service recovery strategies on customer loyalty employing fast food firms in Umuahia metropolis. A cross-sectional survey through structured questionnaire was employed. Structural equation modelling was adopted while the outcome of the study showed that apology, explanation, refund and replacement were positive but not significant on customer loyalty.

Conceptual Framework

The framework depicted the potential link between service recovery and customer retention. The model was broken down to explanation, apology, compensation and assurance on customer retention which was also measured with customer satisfaction and customer loyalty. Thus the adoption of this variable (service recovery) is expected to influence or predict customer retention in the banking industry.

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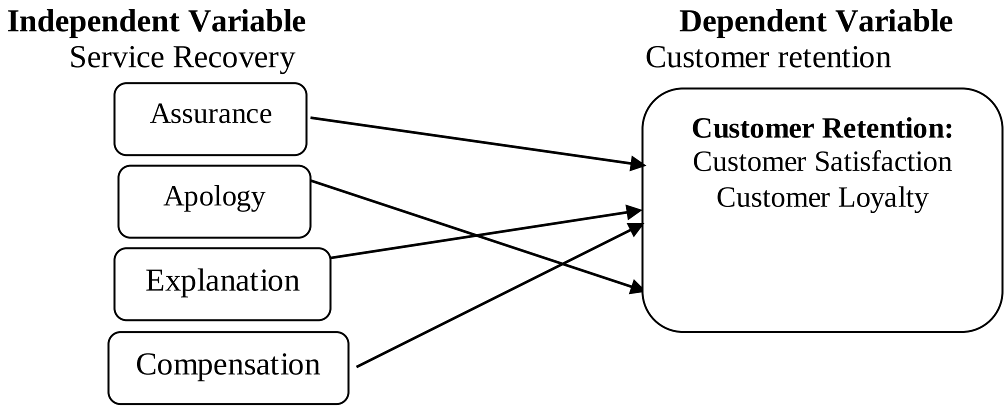

Figure 2.1: Relationship between service Recovery and Customer Retention
Source: Adapted from Okeiyi and Agu (2022)

3. Methodology

Survey research design through structured questionnaire was employed. The study population comprised customers of eight banks in Ekiti State. Access Bank, First Bank, Zenith Bank, GTco, Eco Bank, Wema Bank, Heritage Bank and UBA were the understudy banks. These banks were considered among others depending on their number of branches. The selected banks have more than two branches in Ekiti State. The study population covers customers patronising the selected banks. Therefore, considering the huge number of customers of these banks, thirty (30) customers each from the eight aforementioned banks were employed to make a total of two hundred and forty (240) customers using random sampling. Descriptive statistic was employed to present respondent's demographic information through frequency tables while simple linear regression was used to achieve the study specific objective.

4. Results and Discussion

Table 1: Respondent's Demographic Distribution

Variables	Frequency	Percent
Gender Distribution		
Male	106	49.5
Female	108	50.5
Total	**214**	**100.0**
Marital Status		
Single	84	39.3
Married	130	60.7
Total	**214**	**100.0**
Age Distribution		
Below 25Years	33	15.4
26-35Years	76	35.5
36-45Years	41	19.2
46Years and Above	64	29.9
Total	**214**	**100.0**
Educational Qualification		
Primary	17	7.9
Secondary	22	10.3
Tertiary	175	81.8
Total	**214**	**100.0**
Employment Status		
Employed	49	22.9
Self Employed	106	49.5
Unemployed	59	27.6
Total	**214**	**100.0**

Source: Authors' Field Survey (2023)

Respondent's demographic information through sex distribution revealed that one hundred and six (49.5) of the respondents are male while one hundred and six eight (50.5%) are female. This implied that female respondents have the highest percentage compared to the male respondents. Marital status distribution revealed that eighty four (39.3%) of the respondents are single while one hundred and thirty (60.7%) are married. This implied that married respondents are more than the single respondents. Age distribution revealed that thirty three (15.4%) of the respondents are ages below 26 years, seventy six (35.5%) are between 26-35years, forty one (19.2%) are between 36-45years while sixty four (29.9%) are 46 years and above. Academic background distribution revealed that seventeen (7.9%) of the respondents have only primary education, twenty two (10.3%) have only secondary education while one hundred and seventy five (81.8%) have only tertiary education. The employment status distribution of the respondents showed that forty nine (22.9%) of the respondents are employed, one hundred and six (49.5%) are self employed while fifty nine (27.6%) are unemployed.

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4.1 Service Recovery and Customer Retention

Table 2: Service Recovery Effect on Customer Retention

Variables	Beta	T-Statics	P-value
Constant	6.804	4.436	.000
Service Recovery	.930	12.397	.000
R	**.747***		
R^2	**.558***		
R^2	**.523***		
F*	**16.135**		

Source: Authors' Field Survey, (2023)

The effect of independent variable (service recovery) on dependent variable (customer retention) was subjected to linear regression and the hypothesis was tested using F-Statistic. Table 2 revealed the regression co-efficient of service recovery on customer retention showed a positive value (0.747), this showed a very strong positive effect of service recovery on customer retention. The co-efficient of multiple determinant (R^2) with a value (0.558) indicated that service recovery can describe 55.8% of the behaviour of customer retention while the remaining 44.2% can be described by the stochastic variable. The adjusted R^2 also confirmed the result of the R^2 with a value (0.523), which indicated 52.3% of service recovery on customer retention after adjustment while the remaining 47.7% is described via the error term. From the table it was revealed that the T-value, co-efficient of service recovery is (0.930), this implied that service recovery has a positive and significant effect on customer retention. Therefore, it implied that an increase in service recovery will lead to 93% increase in customer retention. The study hypothesis was tested through F statistic, thus revealed a significance value of 16.135, the value implied an acceptance of alternate hypothesis and rejected null hypothesis. Hence service recovery has a positive and significant effect on customer retention.

Discussion of the Findings

The retrieved data was analysed via linear regression. The hypothesis of the study was tested through F-statistic and the regression value showed that service recovery has a significant effect on customer retention. Furthermore and from the regression result, service recovery significantly affects customer retention of banks in Ekiti State. The outcome of the result revealed strong significant values of service recovery on customer retention implying that customer retention can be enhanced and improved through service recovery in the banking sector. The finding is consistent to the study of Okeiyi and Agu (2022) who examined influences of service recovery strategies on customer loyalty considering fast food firms in Umuahia metropolis, Abia State using structural equation modelling. The study found that service recovery strategies (apology, explanation, refund and replacement) were positive but not significant on customer loyalty.

5. Conclusion and Recommendations

The study found that service recovery significantly affects customer retention among banks in Ekiti State as revealed through linear regression and was positive at 0.05 level of significance.

This implied that service recovery has serious positive implications in retaining customers in the Nigerian banking industry. The study considers service recovery and customer retention which was proxy by customer loyalty and customer satisfaction. In conclusion, services recovery is positively related to customer retention among banking firm in Ekiti State.

Consequently upon the findings, the study recommends that bank management or managers should put up a retention strategy through service recovery that will help retain customers and preventing them from switching particularly in a time like Central Bank Cash Swap policy. In view of this, better explanation to customers will go a long way in ensuring their understanding of the new policy. Moreso, apology and giving them assurance of quality service through compensation if need be in retaining the existing customers and attracting new customers to maintain or gain more share in the banking market.

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