

# Innovations

## Effect of Service Recovery Strategies on Customer Loyalty to Selected Deposit Money Banks in South East Nigeria

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**Abstract :** *This study examined the effect of service recovery strategies on customer loyalty to selected deposit money banks (DMBs) in South East, Nigeria with customer service recovery satisfaction as a mediator. The specific objectives were to: Determine the extent to which the use of referee affects service recovery satisfaction of selected DMBs in South East, Nigeria; ascertain the extent to which timely feedback affects service recovery satisfaction of selected DMBs in South East, Nigeria; evaluate the effect of communication on service recovery satisfaction of selected DMBs in South East, Nigeria; ascertain the extent to which empowerment affects service recovery satisfaction of selected DMBs in South East, Nigeria; investigate the effect of apology on service recovery satisfaction of selected DMBs in South East, Nigeria; determine the extent to which compensation affects service recovery satisfaction of selected DMBs in South East, Nigeria and evaluate the extent to which service recovery satisfaction mediates the relationship between service recovery strategies and customer loyalty to selected DMBs in South East, Nigeria. The population of the study comprised of customers of selected DMBs in South East, Nigeria. A sample size of 313 corporate and individual customers was selected for the study. Questionnaire was the instrument for data for data collection. The formulated hypotheses were tested using the partial least squares structural equation modeling (PLS-SEM) version 3.2.8 technique. The findings revealed that service recovery strategies (based on justice theory consisting of procedural justice, interactional justice and distributive justice) significantly affect customer loyalty, with service recovery satisfaction positively mediating this relationship. The study contributes to the literature by introducing the use of a referee as a dimension of procedural justice aspect of service recovery strategy and providing empirical support for the social justice theory and Recovsat (recovery satisfaction)*

*model. The results have implications for banks' service recovery strategies, highlighting the importance of effective service recovery in enhancing customer satisfaction and loyalty. The study recommends as procedural justice elements, that banks should use referee to resolve severe services failure, adopt the use operational manuals to guide staff in service recovery; offer adequate monetary compensation as an aspect to distributive justice with apology and communicate feedback timely to customers with politeness which are elements of interactional justice.*

**Keywords:** *Service Recovery, Referee, Customer Loyalty, Service Recovery Satisfaction.*

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## **Introduction.**

In today's competitive financial services sector, customer loyalty is crucial for deposit money banks (DMBs) to survive and thrive (Rajan, 2018; Jan & Younas., 2012). Despite efforts to improve service quality, service failures can occur due to human error, technology glitches, or uncontrollable circumstances (Obasi et al. 2020). Effective service recovery strategies can mitigate the negative consequences of service failures, leading to customer loyalty ( Ali et al., 2021). However, the interplay between service failure and recovery is not well understood (Ali et al., 2021). This study explores the impact of service recovery strategies on customer loyalty in DMBs in South East, Nigeria, where research on this topic is scarce. By investigating this relationship, the study aims to provide insights for banks to develop effective service recovery strategies, prevent service failures, and foster long-term customer relationships (OK, 2004).

The researchers therefore hypothesised thus;

H<sub>01</sub>: The use of referee has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

H<sub>02</sub>: Timely feedback has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

H<sub>03</sub>: Communication has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

H<sub>04</sub>: Empowerment has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

H<sub>05</sub>: Apology has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

H<sub>06</sub>: Compensation has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

H<sub>07</sub>: Service recovery satisfaction does not positively mediate the relationship between service

recovery strategies and customer loyalty to selected DMBs in South East, Nigeria.

## **Literature Review.**

### **Conceptual Framework**

#### **Concept of Banking Services**

Banks deliver services to satisfy customers' needs and wants (Areo, 2015). Banking services include account opening, paying on demand, safe custody, bankers' orders, and electronic payments (Saravanan & Muthulakshmi, 2016). According to section 131 of BOFIA (Banking and other financial institutions act) 2020, banking business "means the business of receiving deposits on current account, savings deposit or other similar accounts, paying or collecting cheques, drawn by or paid in by customers." From the definitions, the major services that banks offer include a wide range of operations to their clients. These include: (a) Opening account (b) Safe custody (c) Bankers order and standing orders (d) Open credit or cashing (e) International Trade Services (f) Bankers draft (g) Money transfers (h) Night safes (i) Issuance of performance bonds, and (j) Electronic payments.

#### **Service Failure and Recovery**

Service failure occurs when the service fails to meet the customer's expectation. Service failure is unavoidable (Chou, 2015; Cook, 2012) and can result from human or non-human factors such as impoliteness, non-response to request, unsolicited and unprompted employee actions, unavailable service, unreasonable slow service, network down time (Cengiz et al., 2007). Consequences of service failure include customer dissatisfaction, negative word-of-mouth, and decreased loyalty (Sharma et al., 2016).

#### **Service Recovery**

Service recovery is critical in restoring customer satisfaction after a service failure (Gronroos, 2007). It involves actions taken by the service provider to resolve service failure issue; such actions include apologies, compensation, and empowerment (Boshoff, 2005). Effective service recovery can lead to increased customer loyalty and retention (Cengiz et al., 2007).

#### **Service Recovery Failure/Disconfirmation:**

Disconfirmation occurs when there is a gap between expected and actual service recovery performance (Lai & Chou, 2015). When actual service recovery performance is higher than expected the result is positive disconfirmation which leads to service recovery satisfaction and the contrary is negative disconfirmation that results to dissatisfaction. The three elements of disconfirmation are positive disconfirmation, negative disconfirmation and confirmed expectation. Negative disconfirmation results in service failure (Kesharwani et al., 2021). Positive

disconfirmation leads to satisfaction, while negative disconfirmation leads to dissatisfaction (Cadotte et al., 1987; McCullough et al., 2000; Oliver, 1993 as cited in Chih, 2012; & Rai, 2013).

### **Service Recovery Strategies:**

Service recovery strategies include:

**Apology:** Acknowledging responsibility and showing remorse for service failure. It is simply saying “I am sorry” to a customer who has encountered service failure. (Atuo & Kalu, 2017; 2014; Major, 2021)

**Problem-solving:** This involves fixing the issue and providing a gain equal to the loss caused by the service failure.

**Courtesy:** Demonstrating politeness, respect, and friendliness during the service recovery interaction. This involves demonstrating politeness, respect, and friendliness to the customer in the service recovery interaction (Bhuiyan, 2021; Mandina & Kurwiravamwe, 2017)

**Explanation:** This is the act of an employee of a service firm providing information to a dissatisfied customer on why the problem occurred and how it will be prevented (Ekiz & Huseyin, 2000 as cited in Mostafa, 2014; Davidow, 2003; Baer and Hill, 1994; Martin Charles & Denise, 1994 as cited in Quy & Lan, 2015).

**Compensation:** Offering restitution for losses or harm (Major, 2021; Arsenovic et al., 2022)

6. **Training:** Empower employees to deliver customer-centric and professional services through up-skilling (Ashill et al., 2005 as cited in Crabbe & Acquah, 2016).

### **Service Recovery Satisfaction**

Satisfaction is the reverse of dissatisfaction (Oliver, 1980).

Customer satisfaction results from comparing expectations to actual service performance (Oliver, 1980). Equity theory states that customers experience satisfaction when they perceive a positive inequity (Oliver & Swan, 1989 as cited in Ellyawati et al., 2012). There are two forms of satisfaction: transaction-specific satisfaction and cumulative satisfaction (Gustafsson, 2009 & Heumann, 2012). Transaction-specific satisfaction refers to a single experience, while cumulative satisfaction represents a holistic assessment of company performance. Service recovery satisfaction occurs when customer feels that the outcome of the service recovery is higher than his expectation and it is critical in restoring customer satisfaction after a service failure which leads to loyalty (Aminu et al., 2020).

### **Adjusted Recovsat Model**

Boshoff et al (2005) produced a re-assessment and refinement of Recovsat instrument, based on a survey of bank customers “who have lodged complaints with

a retail bank". After that, in a new publication, a further adaptation was made in Recovsat. The adjusted Recovsat model includes seven dimensions: **Compensation:** The company compensated for financial loss and the compensation was fair and the customer was satisfied with given compensation. **Communication:** Communication was found to be clear. Questions were asked to clarify the situation and employee was polite and understanding. **Empowerment:** According to Kandampully and Kim (2010) (as cited in Mandina & Kurwiravamwe 2016), employee empowerment gives employees the right to quickly respond to the problems be-delving the customer. **Timely feedback:** Company gave feedback without taking long before company contacted customer. The problem was solved within a reasonable time and the customer duly informed. **Tangibles:** The company made appropriate use of medium of communication. Medium used for communication appeared professional. **Apologies:** Company apologised for the situation and for financial loss. **Explanation:** Company gave satisfactory explanation for situation. **Facilitation:** This involves the company providing guidelines and assistance to navigate the service recovery process (Muralidharan et al., 2019; Badran & Abdela'tty, 2016). **Effort:** Investing time and energy to resolve the issue (Mohr & Bitner, 1995; Mattila & Patterson, 2004 as cited in Msosa, 2019). **Follow-up:** Checking in with customers after service recovery to ensure satisfaction (AI, 2023; Obiandu, 2020)

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**Referee:** This is the process of engaging a third party to mediate between the bank and customer in severe service failure cases. This is new approach proposed by the researcher which was not found in any of the literature viewed. The use of referee as an aspect of procedural justice becomes necessary where severe service failure occurs especially the affected customer is a high net worth individual (HNI) or corporate customer that does high volume of turnover and profitability to the bank and every other effort to win back the customer did not succeed. Example of referee here is a close friend of the customer, his family member, kinsman, spouse, business associates, ombudsman or regulatory authority that has some degree of influence over the aggrieved customer. In most cases if not in all cases, the services of the referee is free.

### **Justice Theory.**

This study is based on equity (justice) theory. Stacy J. Adams was the first person to develop equity theory in the 1960s by a workplace and behavioural psychologist. This theory is predicated on the argument that a "man's rewards in exchange with others should be proportional to his investments". This theory was first recognised out of research by Stouffer and his colleagues in military administration. They referred to "relative deprivation" (equity) as the reaction to an imbalance or

disparity between what an individual perceives to be the actuality and what he believes should be the case, especially where his own situation is concerned.

The recovery strategies can be considered under the three dimension of justice theory which is made up of procedural justice, interactional justice and distributive justice (Oranusi & Mojekeh, 2019).

These service recovery strategies anchored on this theory for the study include use of referee, timely feedback, apology, compensation, communication and empowerment. Kim, Yoo, and Lee (2012), (as cited in Migacz et al., 2018), posit that justice theory has been employed to uncover several vital findings and has been suggested to be an effective assessment instrument and a strong predictor of service recovery satisfaction among consumers.

**Procedural Justice (PJ):** This can be defined as a customer's perception of the fairness of policies, procedures and guidelines used in the course of service recovery involving a transaction. A procedure, guideline and policies are considered fair if they are transparent, consistent, standardised, flexible, comprehensive, convenient, expedient, accessible and responsive to permit customers to seek for compensation, which engenders trust in the firm (Nugroho & Wang, 2024; Cheng et al., 2018 & Ampong, 2020). Service providers must provide policies, guidelines and procedures for customers in a manner that each customer in the program feels that they receive fairness during service recovery (Cropanzano et al., 2007 as cited in Nugroho & Wang, 2024). Though a customer may be satisfied with the type of service recovery he received from a bank; nevertheless, if the process of obtaining the outcome is perceived to be unfair, the entire service recovery may be considered to be poor (Bahri-Ammari and Bilgihan, 2017; Hoffman and Kelley, 2000 as cited in Ampong et al, 2020). However, the researcher introduced referee as an element of procedural justice which is a new sub variable under procedural fairness in the justice theory based service recovery strategies. A referee in service recovery context is someone who is involved to settle a disagreement, in this case, a dispute/dissatisfaction arising as a result of service failure (Longman Dictionary of Contemporary English, New Edition). Examples of a referee are friends, relations and regulatory bodies, ombudsman, a fellow customer of same bank who has influence on both parties. A referee may be involved by the bank's customer or by the bank. His role is to freely mediate between the two parties in the service failure with the aim of restoring the customer relationship leading to service recovery satisfaction, customer loyalty and customer retention.

**Interactional Justice (IJ):** This refers to the feeling of justice that customers receive when interacting with the staff of service providers who attempt to resolve service

failure via service recovery (Maxham & Netemeyer, 2002 as cited in Nugroho & Wang, 2024). It is also viewed as the customers' perception of the honesty and suitability of the interaction given by the staff during the recovery. Customer evaluation of interactional justice during service recovery is based on sincerity, friendliness, courtesy, respectfulness, effort, explanation, apology, sensitivity, acceptance of blame, communication and interest exhibited by the staff of the bank (Migacz et al.2018; Nadiri, 2016 and Ampong et al., 2020).It is the manner customers are treated by staff of bank during service recovery. If customers perceive fairness in their interaction with the bank staff in the process of service recovery, it leads to service recovery satisfaction with resultant customer loyalty (Ampong et al., 2020).

**Distributive Justice (DJ):** This is concerned with the outcome of the recovery effort. It is described as efforts made by the bank to make atonement for a service failure and it is characterised by tangible compensation through rewards which can be in form of discounts, refunds, replacements, free- gift, apologies and waivers. DJ is defined as the extent to which customers feel they have been treated fairly with respect to the final recovery outcome. Customer perceptions of perceived justice of tangible outcomes have a positive and significant effect on recovery evaluations. The higher the levels of compensation the higher the distributive justice evaluations. Distributive justice is the extent to which the final service recovery outcome is perceived as fair. It focuses on the specific outcome of the bank's recovery effort. That is to say, it concentrates on specifically on what a bank offers to its aggrieved customer to recover from the service failure, and whether output (outcome) offset the costs (inputs) of the service failure which may be in terms of time, money and other resources lost. The evaluation of the fairness of compensation may be also affected by customer's previous experience with the bank, knowledge about how other customers were treated in similar service failure and perception of the severity of his or her loss. When customer perceives fairness in the final service recovery outcome, distributive justice will result to customer satisfaction and loyalty (Migacz et al, 2017, Assefa, 2014).

### **Customer Loyalty**

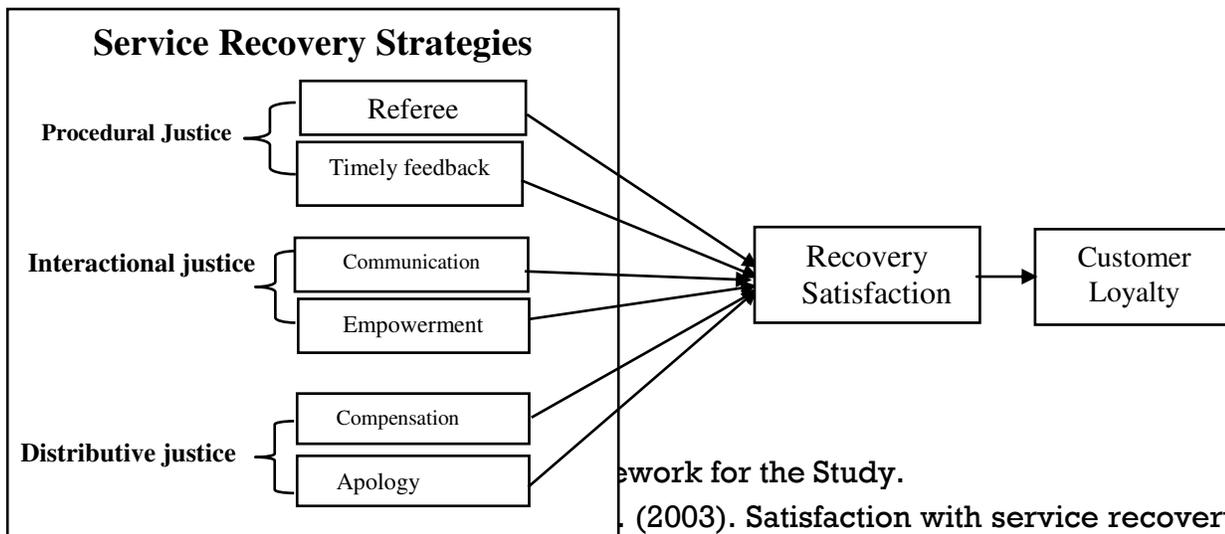
Customer loyalty is a critical element in evaluating a bank's overall performance (Rahman et al., 2023).Loyalty is defined as the likelihood of a customer repatronising in the future and recommending the service provider (Alaid & Zhou, 2013). Alaid and Zhou, (2013); Zarei et al.( 2vvc013); Kitapci et al.(2014);Yapp et al.(2018) and Odoom et al.(2019) (as cited in Siripipatthanakul and Bhandar 2021), opine that customer loyalty can be defined as the likelihood of a customer repatronage in the future, and it is a relatively accurate predictor of future behaviour. Measurement of customer loyalty is based on frequency of intentional repatronage and

recommendation. There are two approaches to loyalty: attitude and behaviour approaches, with three theoretical orientations: behavioural, attitudinal, and mixed attitude-behavioural approach (Bloemer and Kasper (1995) (as cited in Arias-Bolzmann et al., 2018).

**Conceptual Framework.**

The researcher adopted this multi-theoretic approach and conceptualized the independent variables, service recovery strategies as “input”, the mediating variable-service recovery satisfaction as “output” and the dependent variable, customer loyalty as the “outcome’ ’of the system. The conceptual framework, therefore, lends itself to assessment of the relationships between the input, output and outcome of service recovery strategies.

This study proposes that each of the independent variables has positive effect on the mediating variable which mediates a positive effect on the dependent variable as shown in figure 1 below:



Network for the Study. (2003). Satisfaction with service recovery: Its measurement and its outcomes. *South African Journal of Business Management*, 34(3), 9-16.

**Methodology**

The study adopted descriptive survey research design. The source of data is the primary data and secondary information. The data for this study was elicited mainly from primary source through the use of questionnaire structured as instrument for primary data gathering which the researcher used for primary data collection. (Ajayi, 2023). The population of the study was 1,440 from Polaris Bank Ltd, Awka, Anambra State, Union Bank PLC, Umuahia, Abia State, Fidelity Bank PLC, Abakiliki, Ebonyi State and Ecobank, Enugu Enugu State which are the selected banks in South East Nigeria . The sample size of 367 was determined using the Taro Yamane

Formula. The questionnaire was structured in Likert scale to enable respondents indicate the extent to which they agree/disagree with each statement concerning customer loyalty with service recovery strategies with service recovery satisfaction as the mediating variable .

**Data presentation and analysis**

The researchers presented and analysed the data that mainly concerned the study constructs.

**Table 1:Mean/Grand Mean of Responses to Use of Procedural Justice (PJ) for Service Recovery**

ITEMS (N= 300)	SA	A	N	D	SD	MEAN	STD
<b>Referee:</b> My bank adopts good strategies and procedures that are transparent for resolving service failure.	88(440)	165(66)	15(45)	22(44)	10(10)	3.99	.731
My bank involves a referee (a third party) to resolve severe service failure issue.	95(475)	171(684)	14(42)	12(24)	8(8)	4.11	.514
My bank sorts out my problem in the right way.	84(420)	190(760)	8(24)	12(24)	6(6)	4.03	.515
<b>Grand Mean</b>						4.04	.536
<b>Timely Feedback:</b> My bank informs me at intervals about what is being done to fix the problem.	83(415)	194(776)	11(33)	7(14)	5(5)	4.14	.526
My bank communicates with me of the outcome of the service recovery.	193(965)	84(336)	8(24)	11(22)	4(4)	4.50	.474
My bank resolves the problem quickly and refunds me timely.	87(435)	166(664)	10(30)	25(50)	12(12)	3.97	.627
<b>Grand Mean</b>						<b>4.20</b>	<b>.457</b>

Source: Field Survey, 2024

Table 1 above indicates respondents' views on procedural justice as a service recovery strategy used by DMBs in South East Nigeria. The results indicate that: Respondents agreed that their banks use transparent strategies to resolve service failures, involving a referee (third party) to resolve severe issues (mean: 4.04). Respondents agreed that their banks provide timely feedback, keeping them informed about problem resolution, communicating outcomes, resolving issues quickly, and providing timely refunds (mean: 4.20). Overall, the results show that respondents are satisfied with their banks' use of procedural justice, including the involvement of a referee and timely feedback, to resolve service failures.

**Table 2. Mean/Grand Mean of responses to Use of Interactional Justice (IJ) for Service Recovery**

ITEMS (N= 300)	SA	A	N	D	SD	MEAN	STD
<b>Communication:</b> My bank employees were empathetic and so polite to me during the service recovery process.	194 (970)	83 (332)	11 (33)	8 (16)	4 (4)	4.52	.467
My bank customer care officers were so friendly to me during the service recovery process.	88 (440)	166 (664)	14 (42)	21 (42)	11 (11)	4.0	.563
The staff of my bank were all so patient with me.	96 (480)	170 (680)	15 (45)	11 (22)	8 (8)	4.12	.521
<b>Grand Mean</b>						4.21	.470
<b>Empowerment:</b> My bank employees demonstrated expertise in resolving my problem.	192 (965)	85 (340)	8 (24)	4 (8)	11 (11)	4.49	.510
My bank employees have ample authority to resolve my problem.	46 (230)	165 (660)	41 (123 )	22 (44)	26 (26)	3.61	.783
My bank employees have the necessary resources at their disposal for speedy resolution of my problem.	194 (970)	82 (328)	13 (39)	6 (12)	5 (5)	4.51	.563

<b>Grand Mean</b>						<b>4.20</b>	<b>.782</b>
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**Source: Field Survey, 2024**

Table 2 shows that respondents agreed that DMBs in South East Nigeria demonstrate interactional justice through: Effective communication (empathy, friendliness, patience) with a mean of 4.21

Empowerment (expertise, authority, resources) with a mean of 4.20. This indicates a high level of satisfaction with how banks interact with customers during service recovery.

**Table 3: Mean/Grand Mean of Responses to Use of Distributive Justice (DJ) for Service Recovery**

<b>ITEMS (N= 300)</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>	<b>MEAN</b>	<b>STD</b>
<b>Apology:</b> My bank apologised to me for what had happened.	81 (405)	172 (668)	10 (30)	21 (42)	16 (16)	3.94	.487
My bank expressed regrets for the mistakes made on my transaction.	85 (425)	192 (768)	8 (24)	9 (18)	6 (6)	4.14	.566
The bank apologized for the inconvenience the problem has caused me.	96 (480)	170 (680)	9 (27)	15 (30)	10 (10)	4.09	.479
<b>Grand Mean</b>						<b>4.06</b>	<b>.496</b>
<b>Compensation:</b> My bank offered an appropriate compensation to me for the service failure.	61 (305)	160 (640)	41 (123)	18 (36)	20 (20)	3.75	.627
The compensation offered by my bank fulfilled my expectations.	56 (280)	174 (696)	35 (105)	21 (42)	14 (14)	3.79	.602
The quantum of monetary compensation was adequate.	45 (225)	166 (664)	42 (126)	20 (40)	27 (27)	3.61	.755
<b>Grand Mean</b>						<b>3.72</b>	<b>.684</b>

**Source: Field Survey, 2024**

Table 3 summarises respondents' opinions on how Deposit Money Banks (DMBs) in South East, Nigeria use distributive justice as a service recovery strategy. The results indicate that: Respondents agree that their banks apologize and express

regret for service failures and related inconveniences (grand mean: 4.06). They also agree that their banks offer appropriate compensation for service failures, meeting their expectations and providing adequate monetary compensation (grand mean: 3.72). Overall, the respondents are satisfied with their banks' use of apology and compensation as service recovery strategies, with a slightly higher satisfaction rate for apology.

**Table 4: Customer Satisfaction after Service Recovery:** Consequent to service recovery I received from my bank:

ITEMS (N= 300)	SA	A	N	D	SD	MEAN	STD
I am pleased with the way my bank has dealt with and responded to the problem.	60 (300)	144 (576)	16 (48)	60 (120)	20 (20)	3.55	.845
I am satisfied with the process (the way of working) and the tools used by my bank to solve the problem.	75 (375)	112 (448)	23 (78)	57 (114)	33 (33)	3.49	.942
I am satisfied with solution provided by my bank to my problem.	60 (300)	150 (600)	50 (150)	35 (70)	5(5)	3.75	.864
I am satisfied with the compensation offered by my bank.	75 (300)	100 (400)	46 (138)	52 (104)	27 (27)	3.23	.906
<b>Grand Mean</b>						<b>3.51</b>	<b>.783</b>

**Source: Field Survey, 2024.**

Table 4 above indicates respondents' opinions on customer satisfaction after service recovery by DMBs in South East Nigeria. The means of the items 3.55, 3.49, 3.75 and 3.23 in the above table reveal that the respondents agreed they are pleased with the way their banks have dealt with and responded to their problems, satisfied with the process and tools used to solve the problems, the solutions provided by their banks to their problems, and compensations offered by their banks, which is represented by their grand mean of 3.51.

**Table 5. Customer Loyalty (CL):** Following the justice I got from my bank during service recovery process:

<b>ITEMS (N= 300)</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>	<b>MEAN</b>	<b>STD</b>
I reuse their services.	85 (425)	95 (380)	50 (150)	44 (88)	26 (26)	3.56	.752
I use other services of the bank.	84 (420)	133 (532)	30 (90)	40 (80)	13 (13)	3.78	.813
I do word of mouth recommendation of the bank to my family members, friends and associates.	86 (430)	144 (576)	33 (99)	30 (60)	7 (7)	3.91	.692
I patronise the bank even at slightly higher charges.	121 (605)	59 (236)	70 (210)	31 (62)	19 (19)	3.77	.741
<b>Grand Mean</b>						<b>3.76</b>	<b>.798</b>

**Source: Field Survey, 2024.**

Table 5 shows respondents’ opinions on customer loyalty following justice they got during servicerecovery process. The means of the four items 3.56, 3.78, 3.91 and 3.77 in the above table reveal that the respondents agreed that after service recovery they reuse their banks’ services, use other services of their banks, make word of mouth recommendations to family members, friends and associates, and patronise their banks even at slightly higher charges, which is represented by the grand mean of 3.76.

***Assessment of Measurement Model***

Prior to conducting the structural equation modeling assessment, the reliability and validity of the gathered data were computed. In terms of reliability, what is implied is the ability of the adopted scale to constantly represent (replicate) the measured constructs (Leong et al., 2011). That is to say, if an independent person aside the researcher is to use the same scale and data, similar results will be produced.

Composite Reliability (CR) and Cronbach’s Alpha were used to assess the reliability of the instrument while Average Shared Variance (ASV), factor loadings, Maximum Shared Variance (MSV), and Average Variance Extracted (AVE) tests were used to test the convergent validity for this study. Factor analysis was simultaneously carried out on the 26 scale items of the latent constructs using smart PLS-SEM soft. The items’ loadings show their relative importance in explaining the model. The output from the initial factor loadings led to the dropping of 5 items because they loaded below

the acceptable limit. Therefore, factor analysis was repeated on the remaining 21 items. This is documented in Table 6, and it can be seen from the said table that both Composite reliability and Cronbach’s alpha returned values greater than 0.7, which shows that all the constructs adopted for this study have good reliability (Sekaran & Bougie, 2016). Furthermore, the AVE value was greater than 0.5, indicating that the gathered data had convergent validity (Hair Jr et al., 2016; Hulland, 1999). According to Wang and Shah (2023), both the ASV and MSV values should be lower than the AVE in order to be considered valid. From Table 6, it can be seen that all values for the ASV and MSV are below those of the AVE. Thus, the convergent validity is valid.

**Table 6: Convergent Validity**

	<b>Factor loading</b>	<b>Cronbach <math>\alpha</math></b>	<b>CR</b>	<b>AVE</b>	<b>ASV</b>	<b>MSV</b>
REF1	0.744	0.93	0.91	0.58	0.41	0.50
REF 2	0.768					
REF 3	0.758					
TIMF1	0.701	0.89	0.88	0.61	0.53	0.51
TIMF2	0.808					
TIMF3	0.803					
COM1	0.717	0.91	0.82	0.68	0.61	0.30
COM2	0.788					
COM3	0.835					
EMP1	0.817	0.93	0.91	0.58	0.41	0.50
EMP2	0.884					
EMP3	0.887					
APO1	0.957	0.91	0.91	0.77	0.73	0.64
APO2	0.79					
APO3	0.643					
COMP1	0.692	0.84	0.756	0.51	0.47	0.46
COMP2	0.799					
COMP3	0.804					
SRES1	0.675	0.81	0.76	0.51	0.50	0.43
SRES2	0.675					
SRES3	0.704					

Going further, the researcher assessed the discriminant validity with the conventional approach that was proposed by Fornell and Larcker (1981) and cross-loading. It was suggested by Fornell and Larcker (1981) that the square roots of the

AVEs obtained for each of the constructs should be greater than the correlation value established among other constructs for discriminant validity to be established with the data. This is the case as documented in Table 7, as the first value is bigger than the rest of the values in the same column. Hence, discriminant validity is obtained for the loaded data.

**Table 7: Discriminant Validity**

	<b>REF</b>	<b>TIMF</b>	<b>COM</b>	<b>EMP</b>	<b>APO</b>	<b>COMP</b>	<b>SRES</b>	
<b>REF</b>	<b>0.761577</b>							
<b>TIMF</b>	0.745	<b>0.842615</b>						
<b>COM</b>	0.617	0.551	<b>0.877496</b>					
<b>EMP</b>	0.58	0.801	0.552	<b>0.714143</b>				
<b>APO</b>	0.544	0.868	0.648	0.865	<b>0.714143</b>			
<b>COMP</b>	0.496	0.495	0.535	0.509	0.618	<b>0.781025</b>		
<b>SRES</b>	0.616	0.469	0.369	0.603	0.413	0.586	<b>0.806226</b>	

The goodness of fit was also tested. For this purpose, TLI (Tucker-Lewis Index), CFI (comparative fit index), and RMSEA (Root mean square error of approximation) were used. To be considered a good fit, the standard values for TLI and CFI must be greater than 0.90 and that is the case for this study. For RMSEA, the standard value should be lower than 0.10 and that is also the case for this study as documented in Table 8. Thus, based on the findings from the table, it is concluded that the model is a good fit.

**Table 8: Model Goodness of Fit**

<b>Selected indices</b>	<b>Result</b>	<b>Acceptable level of fit</b>
TLI	0.903	TLI > 0.90
CFI	0.901	CFI > 0.90
RMSEA	0.003	RMSEA < 0.05 good; 0.05 to 0.10 acceptable

In view of the above discussions, the data gathered in this study can be moved for further analysis. This is based on the fact that it has valid convergent and discriminant validity, and the model is a good fit. Thus, further analysis in relation to the stated hypotheses is presented and discussed below.

**Test of Hypotheses**

The hypotheses formulated in Chapter one of this study were restated and tested with results confirmed to support the hypotheses.

The structural model shown in figure 2 the output of the original research model as proposed. The output of the model captures the path coefficients ( $\beta$ ), the t-values, and the coefficients of determination (i.e., total variance explained,  $R^2$ ).

The figures at the arrows running from the various latent constructs show the factor loadings of their respective reflective indicators (see fig.2 and Table 9). The figures represented in the arrows linking the latent constructs within the inner model are path coefficients. See table 9, showing the total effect of each path as well as support for or against the various hypotheses.

The paths' significance was tested to determine the strength/degree of the relationships with the hypothesised variables, with the aid of Smart PLS software (Ringle et al., 2015) employing 5000 sub-samples bootstrapping procedures as recommended in the literature (Hair et al.; 2007).

**Test of Hypotheses One**

$H_{01}$ : The use of referee has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

$H_{a1}$ : The use of referee has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

Based on the result in table 4.4.4, the path coefficient value is 0.83; the t-value is 3.457 with a corresponding p-value of 0.000, which is less than 0.05, the stipulated level of significance. The decision is that  $H_{a1}$  is supported. Thus, implying that the use of referee has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria

### **Test of Hypothesis Two**

$H_{02}$ : Timely feedback has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

$H_{a2}$ : Timely feedback has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

Based on the result in table 4.4.4, the path coefficient value is 0.87; the t-value is 4.149 with a corresponding p-value of 0.000, which is less than 0.05, the stipulated level of significance. The decision is that  $H_{a2}$  is supported. Thus, implying that timely feedback has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

### **Test of Hypothesis Three**

$H_{03}$ : Communication has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

$H_{a3}$ : Communication has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

Based on the result in table 4.4.4, the path coefficient value is .82; the t-value is 3.199 with a corresponding p-value of 0.000, which is less than 0.05 the stated level of significance. The decision is that  $H_{a3}$  is supported. Thus, implying that communication has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

### **Test of Hypothesis Four**

$H_{04}$ : Empowerment has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

$H_{a4}$ : Empowerment has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

Based on the result in table 4.4.4, the path coefficient value is 0.57; the t-value is 5.496 with a corresponding p-value of 0.000, which is less than 0.05 the stated level of significance. The decision is that  $H_{a4}$  is supported, showing that empowerment has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

### **Test of Hypothesis Five**

H<sub>05</sub>: Apology has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

H<sub>a5</sub>: Apology has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

Based on table 4.4.4, the path coefficient value is 0.68; the t-value is 6.432 with a corresponding p-value of 0.000 which is less than 0.05 the stated level of significance. The decision is that H<sub>a5</sub> is supported, showing that apology has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

### **Test of Hypothesis Six**

H<sub>06</sub>: Compensation has no significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

H<sub>a6</sub>: Compensation has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

Based on table 4.4.4, the path coefficient value is 0.81; the t-value is 8.430 with a corresponding p-value of 0.000 which is less than 0.05 the stated level of significance. The decision is that **H<sub>a6</sub>** is supported, showing that compensation has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

### **Test of Hypothesis Seven**

H<sub>07</sub>: Service recovery satisfaction does not positively mediate the relationship between service recovery strategies and customer loyalty to selected DMBs in South East, Nigeria.

H<sub>a7</sub>: Service recovery satisfaction positively mediates the relationship between service recovery strategies and customer loyalty to selected DMBs in South East, Nigeria.

Based on table 4.4.4, the path coefficient value is 0.71; the t-value is 9.431 with a corresponding p-value of 0.000 which is less than 0.05 the stated level of significance. The decision is that H<sub>a7</sub> is supported; showing that service recovery satisfaction positively mediates the relationship between service recovery strategies and customer loyalty to selected DMBs in South East, Nigeria.

All hypothesised relationships (alternate) were supported at  $p < 0.001$  level of significance. In other words, figure 2 and table 9 document the path analysis for the latent variables. Figure 2 shows that the independent variables have positive effect on the dependent variable. The use of referee has significant positive effect (0.83) on service recovery satisfaction, timely feedback has significant positive effect (0.87)

on service recovery satisfaction, communication has significant positive effect (0.82) on service recovery satisfaction, empowerment has significant positive effect (0.57) on service recovery satisfaction, apology has significant positive effect (0.68) on service recovery satisfaction, compensation has significant positive effect (0.81) on service recovery satisfaction, and service recovery satisfaction mediates significant positive effect (0.71) on the relationship between service recovery strategies and customers' loyalty. Going further, the beta and significant values in table 9 show that these relationships are statistically significant ( $p < 0.001$ ). Therefore, hypotheses 1–7 are supported.

The predictive power of the latent constructs indicated that the strongest predictive power within the model falls on relationship between timely feedback and service recovery satisfaction ( $\beta = 0.87$ ;  $t = 3.541$ ,  $p < 0.001$ ) followed by the relationship between the use of referee and service recovery satisfaction ( $\beta = 0.83$ ;  $t = 8.396$ ;  $p < 0.001$ ), this was followed by the relationship between communication and service recovery satisfaction ( $\beta = 0.82$ ;  $t = 3.199$ ;  $p < 0.001$ ). This was followed by the effect of compensation on service recovery satisfaction ( $\beta = 0.81$ ;  $t = 8.430$ ;  $p < 0.001$ ), this was followed by the mediation effect of service recovery satisfaction on customer loyalty ( $\beta = 0.71$ ;  $t$ -value is 9.431;  $p < 0.001$ ) and the relationship between apology and service recovery satisfaction ( $\beta = 0.68$ ;  $t = 6.432$ ;  $p < 0.001$ ), The last was the association between empowerment and service recovery satisfaction ( $\beta = 0.57$ ,  $t = 5.496$ ;  $p < 0,001$ ). All the hypothesised relationships within the research model and their outcomes are shown in table 9.

**Table 9: Estimated results of the structural model and hypotheses test outputs**

Relationships			Beta Estimate	T-value	S.E.	P-value	Result
SRES	<---	REF	.831	8.396	.041	0.000	Supported
SRES	<---	TIMF	.866	3.541	.040	0.000	Supported
SRES	<---	COM	.820	3.199	.041	0.000	Supported
SRES	<---	EMP	.574	5.496	.044	0.000	Supported
SRES	<---	APO	.682	6.432	.041	0.000	Supported
SRES	<---	COMP	.813	8.430	.040	0.000	Supported

Relationships			Beta Estimate	T-value	S.E.	P-value	Result
CUL	<---	SRES	.71	9.431	.043	000	Supported

*Source: PLS-SEM Algorithm Output, 2024.*

**SRES** = Service recovery satisfaction; **CUL** = Customer loyalty; **REF** = Referee; **TIMF** = Timely Feedback; **COM**= Communication; **EMP**= Empowerment; **APO**= Apology; **COMP** = Compensation.

The variance explained ( $R^2$ ) in the inside circles within the model (See figure 4.1) represents the amount of variance explained, which is contributed by a host of other latent constructs. R – Square ( $R^2$ ), also called the coefficient of determination, is the overall effect size measure for the structural model as in regression. Thus the  $R^2$  shown in the inside circles **SRES** = 0.749; and **CUL** = 0.864 indicate that 74.9% of the variance in the SRES variable is explained by the use of referee, Timely Feedback, Communication, Empowerment, Apology, and Compensation, and 86.4% of the variance in **CUL** is explained by **SRES**. For example, this last one literally means that 86.4% of the change in customer loyalty is as a result of service recovery satisfaction of selected DMBs in South East, Nigeria.

No R-square is shown for service recovery strategies because they are exogenous latent factors (i.e. there are no arrows coming to them).

Hock and Ringle (2006:15) describe “results above the cutoffs 0.67, 0.33, and 0.19 to be “substantial,” “moderate,” and “weak,” respectively.” The  $R^2$  in this model would be considered to be of substantial strength or effect.

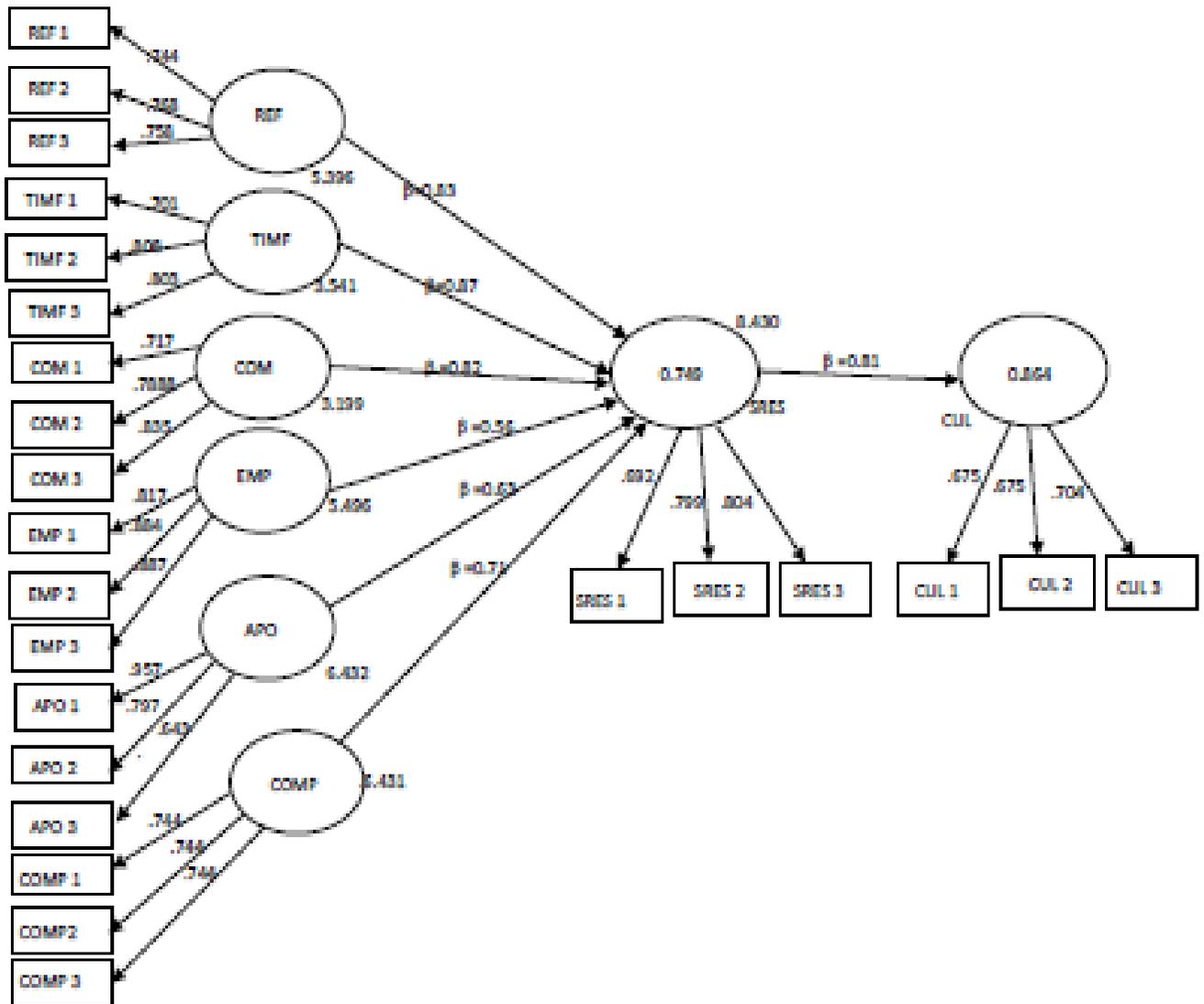


Figure 2: PLS-SEM output of Hypothesised relationships and the structural model.

### Discussion of Findings

The following are the findings of this study:

The use of **referee** has significant positive ( $\beta = 0.83$ ,  $t = 8.396$ ;  $p < 0.001$ ) effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

**Timely feedback** has significant positive ( $\beta = 0.87$ ,  $t = 3.541$ ;  $p < 0.001$ ) effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

Communication had significant positive ( $\beta = 0.82$ ,  $t = 3.199$ ;  $p < 0.001$ ) effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

**Empowerment** has significant positive ( $\beta = 0.57$ ,  $t = 5.496$ ;  $p < 0.001$ ) effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

**Apology** has significant positive ( $\beta = 0.68$ ,  $t = 6.432$ ;  $p < 0.001$ ) effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

**Compensation** has significant positive ( $\beta = 0.81$ ,  $t = 8.430$ ;  $p < 0.001$ ) effect on service recovery satisfaction of selected DMBs in South East, Nigeria.

**Service recovery satisfaction** positively mediates ( $\beta = 0.71$ ,  $t = 9.431$ ;  $p < 0.001$ ) the relationship between service recovery strategies and customers' loyalty to selected DMBs in South East, Nigeria.

Successful service recovery strategies implementation often entails significant organisational profitability because there is strong evidence that service recovery strategies significantly affect customer satisfaction and customers' loyalty to selected DMBs in South East, Nigeria.

### **Conclusion:**

The following conclusions could be drawn based on the finding of the study:

The use of referee has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria. This implies that in a severe service failure situation, service recovery satisfaction increases with the use of referee in the recovery process. The referee involvement likely provides neutral dispute resolution, fair compensation and swift intervention resulting in increased service recovery satisfaction.

Timely feedback has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria. It can be inferred that providing timely feedback to customer after service failure encounter leads to improved customer satisfaction with the service recovery process. Timely feedback is critical for effective service recovery in banking industry, particularly for DMBs in South East Nigeria. Communication has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria. It can be surmised that the more regular and effective the communication between a DMB in South East Nigeria and its customer who has experienced service failure, the more the service recovery satisfaction.

Empowerment has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria. This implies that service recovery satisfaction is enhanced with adequate authority and training given to frontline staff to take decisions, take ownership of issues to resolve service failure. Apology has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria. Therefore, it can be deduced that the higher the sincere apologies

offered to a customer in service failure encounter, the higher the service recovery satisfaction in banking industry especially the selected DMBs in South East Nigeria.

Compensation has significant positive effect on service recovery satisfaction of selected DMBs in South East, Nigeria. It can be inferred that service recovery satisfaction is improved by adequate compensation to an aggrieved customer of the selected DMBs in South East Nigeria.

Service recovery satisfaction positively mediates the relationship between service recovery strategies and customer loyalty to selected DMBs in South East, Nigeria.

Effective management of service recovery strategies - use of referee, timely feedback, communication, empowerment, apology, and compensation enhances service recovery satisfaction and improves customer loyalty which increases deposit volume, turnover and guarantees profitability.

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