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Service Recovery Paradigm for Innovative Banking

Shivshankar Mishra[1] and Richa Nilay Mishra[2]
[1]Professor Emeritus & Academic Director,
IHM-A [Huddersity University, UK] Aurangabad
[2]Student of M.Com. II and a Research Scholar, S.B. College of Arts & Commerce

ABSTRACT

In the context of the globalised business environment of banking, it is the quality of service and customer relationship that are going to help the banks sustain their business and image. There are a few syntactic and semantic phrases that are doing rounds in the industry and academic circuits lately—the Knowledge Management, Value Capture, Innovation and Creativity for delivery and recovery of a failed service. This paper attempts to critically evaluate the perception of bank customers towards the service quality and customer relationship practices in banks based on the study of some select number of banks with special reference to the 'service recovery' practice for customer retention and how that helps in creating customer loyalty. 'Service recovery' paradigm has the potential to create a delightful 'ahaa' effect in customers, which is the ultimate goal for loyal relationship.

This paper aims at presenting the fundamental concepts behind the key terms and the service recovery paradigm for banks in India, based on a field study conducted with 70 clustered customers of five banks, using the grounded theory approach with snowballing technique and experimental format. The issue addressed was the incidence of service lapse; and how it was attended to by the banks.

Customer satisfaction is the defining feature of any service establishment. Banking being the core activity of the financial sector, the enlightened banks need to embrace the policy to create customer delight through efficient delivery processes and suo-moto remedial action of 'service recovery', lest they should face the ignominy of 'switching behaviour' on the part of their aggrieved customers. Innovative responses are the key to customer satisfaction and customer loyalty.

Keywords – (Knowledge Management, Innovation, Creativity, Value Creation, Value Capture, Value Erosion, Value Strategy, Service Model, Service Failure, Service Recovery)

I. INTRODUCTION

India is served by a network of 83,485 offices of scheduled and commercial banks [RBI Report, 2011]. Add to this the local and regional cooperative banks, the number would exceed one lakh; yet six of every seven clusters of hamlets and habitats remain unreached by a banking office. In this sense the country may be said to be grossly under-banked. The total number of bank accounts in all the banks is close to 35 crore [RBI Report, 2011]. The number of mobile users, incidentally is 85 crore [Telecom Authority Report, 2011]. The growth rate of banking has been steady at 17%. Advances and deposits are closely chasing each other at around the same rate of 17 and 18%. Country's savings rate is one of the highest and consistent in the world. Over the past many decades it has been between 32% and 36%. In 2011, it was 34% [Economic Survey, 2011]. The fast growth of banking sector is being accentuated by the social change and the emerging technologies. We are in the throes of the technology driven fifth revolution of the modern times, which is radically changing the mental processes and the social spaces of human kind, coupled with the compulsions of the globalization. Globalization created a competitive environment and technology offered an opportunity for the cutting edge competency to the banks.

II. THE GLOBAL CONTEXT OF BANKING

The context of globalised business environment has brought for Indian banks a caveat of the service quality and harmonious customer relation ship. This is the sustenance paradigm of the emergent circumstances. This is necessary for the banks to sustain their business and also the image. Service quality is recognised as a key strategic issue for service organizations in contemporary times [Guo, Duff, and Hair; 2008]. This allows an organization to differentiate itself from the competitors to gain a competitive advantage [Gounaris, Stathakopoulos, and Athanassopoulos, 2003]. Service quality for customers is a perceptual construct. It is a perceived judgement; resulting from an evaluation process where customers compare their expectations with service they perceive to have received [Siu, Bridge and Skitmore, 2001]. The service performance has two aspects—(a) the product, and (b) the process. The former refers to the technical content which is *'what is done'*, and the latter refers to the functional side of how the delivery is effected which is *'how it is done'*[Gronroos, 1984]. Gravin in 1988 outlined eight attributes of quality–

1. Performance
2. Features
3. Conformance
4. Reliability
5. Durability
6. Serviceability
7. Aesthetics, and
8. Customer Perception of Quality

Of the eight attributes, the customer perception of quality remains the ultimate test of quality of service. The customer satisfaction rests solely on the perceptual context. Absolute quality of service and customer satisfaction, are two distinct issues because satisfaction is transaction specific and requires experience whereas service quality is an attitude that can occur without any experience [Cronin and Taylor, 1994].

Value Capture

The quality perception leads to the perception of value, the twain then make a formidable satisfying impact on the customer mind and make it difficult for competitors to imitate [Roig et al., 2006]. The value perception of a service is defined by the benefits received from a service delivery and the sacrifices made to receive it [Wang, Lo and Yang, 2004]. The sacrificial connotation may include monetary and non-monetary intangible elements like time and any feeling of gratification or disorientation. It is the latter which affects the psyche deeply and creates an abiding feeling of quality in relationship between the service provider and the customer. Ruyter and Bloemer in their study in 1999 had reiterated the relationship between the satisfaction and loyalty. This creates a continuum—Service Quality–Value Creation–Value Capture–Satisfaction–Loyalty. Any lapse at any point in the continuum in *content, function or neural dysfunction* may lead to a perception of service failure. Customer satisfaction is a mental state which results from a comparison between the customer expectation and the performance perception. The perception of dissatisfaction may emanate from any of the factors and events–*Inconveniences, Core Service Failures, Service Encounter Failures, Negative Responses to Service Failures, Competitive offer, and Ethical Discomfort.*

Service Recovery

Heung and Lam (2003) maintained that Complaint is a Gift. The routine duty compliances do not excite the customers. It's the extreme experiences–good or bad, that stirs and agitates their minds. Normal 'failures' are generally ignored by the customers, because of the possibility of an engaged drag on scarce time. Gronoos [1990] explained the connection between service failures and recoveries. He explained that service recovery is a process of effective actions taken by organization to resolve the problem of customers and the productive handling of complaints.

Service failure is defined as the inability to meet the customer expectations regarding standard of service delivery. From the customer's perspective, service failure may include any situation where something has gone wrong regarding the service received [Palmer, 2001]. Customer dissatisfaction is the outcome of the mismatch between expectations and perceptions of the service quality. It may lead to a mix of responses including spreading negative word of mouth, and complaints. The banks need to minimise such possibilities. Every service failure is situation-specific and concerned with the delivery process. It is essential that it is responded to very quickly and sensitively to avoid any further damage to the reputation of the bank in the customer's mind. The banks in fact should aim at offering 'zero defects' service. Nonetheless, the possibilities of failures cannot be ruled out altogether. The reasons may be numerous and their nature may also be varied. Bitner et al. (1990), proposed a *critical incident technique model* to identify a service failure, under which it is premised that a service failure *per se* does not cause dissatisfaction to the customer, but the response shown or the absence of it, on the part of the organization, that indeed triggers the process of irritation. Bell and Zemke (1987) proposed five elements for service recovery:

- Apology
- Urgent Reinstatement
- Empathy
- Symbolic Atonement
- Follow Up

The four key elements of the service recovery process that can be adapted for the banks are:

- Acknowledgement of the problem
- Explanation of the reason for the failure

- Apology where appropriate
- Quick correction of the error and a compensating attitude.

Employee training modules should invariably include the grooming standards and the service oriented behaviour, as essential components to equip them with customer orientation. It needs to be imbibed in employees that a service failure does not result only in a passive complaint and remorse but a potential action on the part of the customer to form a switching intention, finally leading to shake customer loyalty and an exit decision.

Switching Behaviour Intentions

The switching behaviour is the focal point of concern for modern services marketers in the relationship marketing discourse. Studies have established strong correlation between the customer satisfaction and the customer loyalty and recommendation behaviour; conversely the dissatisfaction is clearly linked to a switching intention [Hennig, Thurau, Gwinner and Gremmeller, 2002].

A Look at the Indian Scenario

This paper aims at presenting the fundamental concepts behind the key terms and the service recovery paradigm for banks in India, based on a critical assessment of innovative services strategies that the banks have been employing and the service standards expected by the customers. A sample of 70 regular customers with banking habit was chosen as the clustered respondents from seven banks–three from public sector, two from private sector and two scheduled banks from cooperative fold. The major plank of methodology is the grounded theory approach with snowballing technique and experimental format. It is the outcome of a limited purpose exploratory research. The issue addressed was the incidence of *service lapse*; and how it was approached. The focus of this paper is on critical evaluation of the perception of bank customers of the service quality and customer relationship practices in banks with special reference to the 'service recovery' practices for customer retention and how that helps in creating customer loyalty. In fact a proper practice of 'service recovery' has the potential tocreate a delighting 'ahaa' effect for customers.

Banking in India in Retrospect

Banks in India have traditionally enjoyed a protected and secure business. CRM [Customer Relationship Management] and Customer loyalty [CL] were never much of a concern for them as the business and accounts came to them in a captive manner most of the time [SBI's Government business monopoly, some banks playing lead bank role, some as priority financiers, some tied to specific industrial houses, some entrusted with institutional salary accounts, some designated for small business finances and agri-linked banks handling agri-finance, etc.]. Liberal bank licences were difficult to come through. That never allowed bank personnel to go in relational mode with the account holders and understand their psyche. It is only after the globalization that private and foreign banks emerged to compete with the public sector banks and government thought of evolving new banking behaviour norms. The trigger point of action was the Narsimham Committee Report. In the wake of globalization India had to initiate financial sector reforms in the early 1990s. The Narsimhan Committee recommendations formed the basis for identifying the areas and the segments to introduce progressive changes. There were different working groups formed by the Government to work out the scope and modality of change. The Goiporia Committee worked in the area of customer services, the Rangarajan Committee, examined the scope for the technology harness. Based on their recommendations, the RBI issued exhaustive guidelines in respect of the new rules for issuing DDs, cheque books, collection of cheques, payment of interest, and remedy for delayed collection of cheques. They also included service guidelines on online banking, plastic currency of Debit Card and Credit Card, Mobile banking etc.

All these changes aimed at innovating the banking products including the service quality and standards; but the two decades of policy initiatives still leave the customers much to desire. The change management always presupposes a total commitment on the part of the management and the employees, both. Customers often report on the lapses and laxity in service standards. The RBI on its part provided for a compulsory 'grievance redressal' mechanism, but the customers continue complaining about the service failures and managements routinely ignoring the complaints. In the modern context the 'complaints' are considered as a rich source of consumer feed-back and the ideas on revamping the weaker operational area, for which the reputed international banking organizations spend huge budgets. Behaviour and technology harness are the two major issues of service failure. The systems fail for which in many cases the backup is not available. The new mindset and the work-culture that was expected through a scheme of proper motivation, de-motivation and training, perhaps did not happen.

In second phase of reforms major areas were labour-related considerations and positioning Indian banks in competition with international banks, so as to create a competitive environment and options to the customers. In the wake of the financial sector reforms many directives, guide lines and awareness and orientation programmes were rolled out to train, retrain and disorient the banking personnel from old ways to drive home the global ways of customer engagement. CRM and quality related awareness that is seen in banks now, has this backdrop.

The Service Industry Caveat

Service industry always has a caveat to adopt a dedicated approach to creating a satisfying experience to its customers, though; there is always a chance of service mishaps either due to human error, procedural delays, behavioural misdemeanour or technology tripping. This is called ‘service failure’. Every service failure has an inevitable implication that the customer experiences irritation and is seen annoyed. The service provider needs to act in a very cautious and prudent manner to embark upon ‘service recovery’ as soon as the lapse is observed. This helps not only in redeeming the customer confidence but creating a reinforced faith and reassurance in banks as the trusted friend and a reliable support system.

The global context of the business and technology has generated an ethos which has brought intimacy and depth in human relationship across geographies. A second learning has begun in Indian context to understand the human pathos in the context of the nuclearisation of families and new sensitivities that are building up around the theme of sustainability, market place dynamics, competition, and technology. It revolves around relationship--the CRM and customer loyalty. The essence of relationship is not as much in binding as it is in bonding.

Service Failure and Service Recovery

The business segments which see the service providing personnel and the customers engaged in a high degree of interactive relationship, invariably offer chances for potential service failure–real or perceptual. In case of the banks, the quality of the service provided by such organizations is determined by the actions of the personnel sitting behind counters or at tables in cubicles. Their attitudes and work responses send the first signals to the customers to fix the perception on service quality. The second line of action happens with actual compliance of a service demand in relation to a document or the instrument moved by the customer for action. The time taken, attitude shown and the manner of disposal determine this second line of perception. The third line perception is led by the responses in absentia for routine banking jobs like interest calculation and postings in account, cheque and DD collection, the levying of service charges and commission, etc. Then there are some PR occasions to cut the ice and endear the customers or distance them. All of them are the occasions to either build the bridges or failure at any occasion, which may lead to a perception of service failure and a cause of irritation to the customers. It is more of a psychedelic standoff.

Service failures and Service recoveries are very crucial elements of a service delivery process. The service failure is a major mishap but an incorrect implementation of the service recovery can prove to be fatal for the bank. So as to avoid a service failure in the first place, the banks need to carry out extensive training programmes for the employees to always look fresh, presentable and cheerful while interacting with the customers and offer all possible help in solving their service problems. *‘Service with a Smile’* should be the dictum. There are numerous recovery strategies which can be implemented by the service providers based on the detection-suo-moto or upon a customer notice. The concept of service recovery includes all actions, strategies and tactics to recover a failed service or a customer complaint. The recovery action has to be directed towards customer satisfaction with the action. The service recovery action executed innovatively can lead to a *service recovery paradox* [Weun, Beaty and Jones], which not only can correct a wrong but delight the customer at banker’s initiative. There are a very few studies carried out in the field, but those published indicate that the sustained relationship decisions by the customers are influenced by ‘delightful’ or ‘disappointing’ incidents they experience [Anderson & Sullivan, 1993; Taylor, 1997]. Extreme positive or negative perceptions go into generating a sustained relationship or igniting a *switching behaviour*.

Bick, Brown, and Abratt [2004] have done a study on value creation aspect of banking and confirmed that the value in part resides in service delivery and service recovery from a failure. There appears to be a strong relationship between the serious service failure and the switching behavior [Bloemer, Ruyter and Wetzels, 1999].

Research Methodology

The first set of financial sector reforms in India aimed more at changing the attitudes and behaviour of the bank employees besides changing the business format at the venue level. The policy directives and the regulatory mechanism have been created to oversee the implementation of the reforms regime through a systemic regulatory framework which looks into the structure, operational working and consumer service standards. The objective is to ensure that the Indian banks of every genre respond to customer care more positively and be comparable on these parameters with the banking practices followed across the globe.

Under the possibility of a tough competition and a changed customer outlook, the bankers were advised to show policy entrepreneurship at higher levels of decision making by bringing on someproactive changes in the form of innovative products and services to retain their existing customers and add new customers to their portfolios.

The study is a critical assessment of innovative services strategies that the banks have been employing and the practices with regard to service recovery, keeping in mind the needs and service expectations. A sample of 70 regular customers with banking habit were chosen as the clustered respondents from seven banks– three public sector, two private sector and two scheduled banks from cooperative fold. The methodology includes normalizing the customer and employee responses and applying analytical tools such as analysis of variances [ANOVA].

A grounded theory approach [Juliet Corbin and Nicholas L.Holt, 2006] with snowballing technique and experimental format was adopted for the present study. It is the outcome of a limited purpose exploratory research. The issue addressed was the incidence of *service lapse*; and how it was attended to by the bank. The three possibilitieswere paired for comparison:

- *The first*, the failure remaining unattended;
- *The second*, attention paid after brought to the notice and
- *The third*, action initiated proactively and suo-moto and reported it to the customer.

The principal input for the study came from the responses and log-book entries, and also from a limited purpose experimental response and perception generated from intimate relationship with the account holders. There were emotional responses, event-windows, strategic inflectors, and event analysis that went into the deduction of the final conclusion. They were analysed through SPSS using descriptive analysis, non-parametric Friedman's Test and cross tabulations. Any further rigorous application of statistical tools was considered interference with the nuanced way of describing the simple events and grievance to complicate the easy understanding. Excessive indulgence in analysis of simple data usually is found to distract and lead away from practical and common sense solutions. Hence, simplicity of the research is the core of the study.

The non-parametric Friedman Test was used in alternation to the one-way ANOVA with repeated measures. The purpose was to elicit differences between customers from different clusters. The experiential delight and perceived value systems were considered by setting up data in SPSS for analysis.

Apart from the perceptual responses, some real time service failures were also observed, five with total non-recovery and seven with post-notice recovery. Suo-moto cases as reported by the employees were 22 generally concerning posting and cheque-collections without notifying to the customers. The first category forms the critical 'event' for customer action and the *first degree failure*. Of the five such observed cases two had expressed disgust and regret while the other two took drastic decision to switch over to other banks. One had taken the bank to the consumer forum upon customer being charged for dishonour of acheque presented to a creditor and being notified'inadequate balance in the account'; despite sufficient balance on the day.

Loss of customer is a setback to the bank and customer going to the Consumer forum is surely a slap. The responses from bankers in different categories differed significantly. The loss of an account was not seen as a major issue of concern in public sector banks, nor a case being filed in the Consumer Forum was seen any embarrassment; whereas private banks reacted sharply with an action against the concerned employee. The difference in action lines in two sets of banks should be seen in the context of the organizationalculture and employee security and unionizing status in banks.

Customers are generally seen reacting and responding very emotionally to the inconvenience caused by a service failure. Sometimes tempers run high and appear inconsolable. The personnel in charge at the time need to show their sensitivity and innovative skills to pacify the irate customers. The best way is to attend to the problem proactively; if any of the bank personnel notices or suspects of a service failure. Such suo-moto action creates the soothing effect and a delight for customers. For interpretation of customer and employee responses the Syntactic as well as Semantic meaning analysis was done. The former is about the inherent meaning, whereas the later is about the "conveyed" meaning [Shannon and Weaver, 1949].

III. CONCLUSION

Modern and contemporary banking is about changing attitudes and adapting to new technologies. The twin has created conditions for the oldies with rigid attitudes to opt withdrawal from the workplace. The golden handshake policy was meant for such incompatible attitudes of the old time workers. India has a mix of bank customers now; those ageing but with good savings to park in banks, and the Gen-X-n-Y under the spell of social media and new electronic gadgets. They want to see friendly and helpful faces behind the counters and those closeted in their cubicles. Banks need to promote a pool of knowledgeable workers. An effective exchange between the mature workers and the younger ones through mentoring schemes is the need of the time. Globalised banking system has turned the old-time banking into the new generation enterprises and these new generation banking enterprises need to base around new generation work habits and attitudes, preferably the new generation workers and new generation practices. The results significantly reflected the customer perception towards their service recovery strategies and the attendant results as reflected in the customer loyalty behaviour. It now presupposes that the banking behaviour incorporates stringent norms with regard to customer suggestions, complaints, feed-back and service recovery suo-moto. They are part of customer satisfaction and standard global service norms. This is the era of global connectivity and integrated world economy. Service recovery norms should become the part of strong ethical and time-bound service delivery norms, which should be part of the second generation reforms. Service failure is the critical part of second generation problems of open banking structures. Policies need to be articulated and addressed to leverage the advantages of relationship. That leaves the banks to capture the value created by the banking circumstance. The study has brought to the fore the significance of knowledge management and the force of quality and value of human element in service relationship.

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