



Complaints Handling Strategies and Customer Retention in Nigerian Banking Sector

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Abstract: The success of a bank is contingent upon its ability to satisfy, recover failed service and keep erstwhile lost customers and attract new ones. While literature has been inundated with various forms of customer attraction strategies little has been done in the area of complaints handling and customer retention. Giving the relevance of customer retention to business continuity and the need to address banks service challenges, the study focused on the complaints handling strategies and customer satisfaction and the effect of compensation strategy on customer positive word of mouth. The study adopted a cross-sectional survey research design with a target population of 4,800,000 customers that registered for Bank Verification Number (BVN) out of which a sample of 520 was determined using Taro Yamane sampling formula. Via simple random sampling technique, 458 customers completed the survey instrument, hence, represented 88.09% response rate. Hypothesis formulated was analyzed Pearson's Product Moment Correlation and simple linear regression analysis. Finding shows that complaints response strategy has a positive and significant relationship with customer satisfaction ($r=0.768$, $p=0.000$). More so, compensation strategy has a positive and significant effect on customer's positive word of Mouth ($\beta = 0.288$, $t = 8.916$, $p=0.000$). The study concluded that complaints handling strategies had significant relevance for customer retention for banks in Nigeria and consequently recommend that management of banks in Nigeria should commit more resources to the mechanisms of handling customer complaints so that customer issues and feedbacks can be addressed more quickly. This is important because of the ripple effect of customer retention to business continuity.

Keywords: Complaints handling, Customer satisfaction, Customer retention, Positive word of mouth.

INTRODUCTION

Generally, customer retention in businesses has been of great interest to business owners, entrepreneurs, government institutions and non-governmental organizations. Customer retention is very key in the banking sector because of the competitive nature of the environment under which they operate. The banking sector globally, has an important role to play in the economic development of any nation. They act as financial intermediaries in mobilizing savings and channels them to productive sectors thus encouraging the efficient allocation of resources in the economy. The survival and success of any business can only be assured through an effective customer retention. Customer retention is regarded as important because it has become increasingly difficult for firms to assume that there exists an unlimited customer base because of service failures.

Service recovery is crucial to the survival of any business organization whether for profit-making or not-for-profit making. Failure by an organization to meet customers' expectations on services can contribute to a rise in customers' complaints, spread of negative word-of-mouth and increase in litigations and subsequently decline in customer retention (Lovelock, C. *et al.*, 2016). Service recovery strategies are the actions taken by a company in response to service failure (Wilson, A. *et al.*, 2016). It is the action taken by companies to satisfy and retain its valued customers when service standards and qualities do not meet the customers' expectations and bring about satisfaction. The effectiveness of the service recovery is dictated by the level of failure and an understanding of why the service failed. When service fails, some customers would voice complaints and demand actions as well as spread negative complains to friends and family, while others would remain silent but discontinue their relationship with the company resulting in customer retention decline. They might inform anyone they know of their dissatisfaction and also suggest to their friends and family not to patronize the services of the company.

It is important to address the challenges relating to decline of customer retention as a result of the increasing service failures and poor service recovery strategies in Nigeria banking sector.

According to (Maxham III, J. G. 2001), a bank's success is a function of its capability to satisfy customers consistently and deliberately retain its customers. However, he further stated that organisations with excellent service delivery strategies and high service quality structures cannot guarantee errors free process or service failures in their routine service delivery to their clients. (Komunda, M., & Osarenkhoe, A. 2012), observed that failure of service recovery has resulted in decline in customers' retention and revenue for the service provider. Customers may express negative comments to third parties concerning poor services they received. They posited that despite improvements in service delivery in the Nigerian banking industry, long queues were still the order of the day, as its contribution to customer satisfaction was below expectation resulting in customer abandoning their accounts.

Furthermore, (DeWitt, T. *et al.*, 2008), posited that complaints by customers are consequences of service failures and recovery during banking transaction. Customers typically find it difficult to complain when a service failure has occurred. Even when customers eventually do complain, employees insinuate, in many instances, that complaining might not be suitable within the particular circumstances (Atalik, Ö. 2007). Bank customers can typically be divided into three groups when it comes to their complaining behaviour (Kim, J. H., & Lynn, J. 2007). First, the private response complainers make up the majority of those that do complain. They do not complain to the service provider, but rather to their friends and family and in this way, spread negative word-of-mouth about the services. The second group is third-party response complainers who prefer to complain to regulators or take legal action. The third group refers to the voice response complainers who inform the service providers where the service failure was experienced about their dissatisfaction (Kim, J. H., & Lynn, J. 2007).

The effective handling of complaints is seen as critical, since complaints that are not correctly handled will not solve problems within the service business and will only grow into bigger problems (Atalik, Ö. 2007). (Atalik, Ö. 2007) is of the opinion that complaint handling is essential to building a competitive service business and customer satisfaction. In the same vain, compensating a dissatisfied customer is the influential way to offset a company's failure and retain such customer (Gelbrich, K., & Roschk, H. 2011). Several studies report inconclusive effects of compensation on customer retention like satisfaction, loyalty, or positive word of mouth, however, the effect fluctuates from no significant to small/medium or very large (Hess Jr, R. L. *et al.*, 2003). In the light this the study examined

complaints handling strategy and customer satisfaction and the effect of compensation strategy on customer positive word of mouth.

LITERATURE REVIEW:

❖ Theoretical Framework:

This study adopts the equity theory to explain the interaction between complaints handling strategies and customer retention of Nigerian banks. Developed in 1963 by John Adams, the equity theory stressed the belief that people value fair treatment and rightness in comparison with other individuals which cause them to be motivated to maintained the existing relationships. This perception of fairness impression can be used to clarify the ways consumers react to service recovery strategies by a provider (Sabharwal, N. *et al.*, 2010). For instance, (Grewal, D. *et al.*, 2008) posited that for a successful compensation to influence future purchase of buyers, it will depend on the need to re-establish equity to the relationship. The theory of Equity is very important to transactional relationship, according to (Olsen, L. L., & Johnson, M. D. 2003); its fundamental assumption is the same with the concept of trade-off in transactional relationships.

Equity theory's importance had been observed and tested as a basis to explain consumer's satisfaction and retention. According to (Olsen, L. L., & Johnson, M. D. 2003), the role of equity is now centered on cumulative evaluations. Consequently, its deals with the total customer experience value over the period of the transaction which elicits customer (Raimondo, M. A. *et al.*, 2008). According to (Hess Jr, R. L. *et al.*, 2003), the importance of the relationship between customers and service provider has been acknowledged as another method to show the effectiveness of service recovery strategies. This also means that the Equity theory is very important in explaining service failure, recovery strategies and customer retention. In their studies, (Hess Jr, R. L. *et al.*, 2003), explained how customers' relationship either cushions or enlarges the influence of recovery of service failure satisfaction using different time series methods across customers' past service experiences with organization or service providers.

Consumers who have a positive relationship with a service provider (that is, excellence customer experiences in the past or a countless times of past experience) will have greater prospects that they will repeat their purchases in future. The customers would, therefore, indicate more patience when there is a service failure since they are inclined to trust the wrongs caused by the organization's service failure and align with future relationship. The cushioning impacts as a result of the past experience (that is, longer time series) are centered on the customer's relationship with the service provider or the organization.

❖ **Empirical Review and Hypothesis Development:**

➤ **Complaints Response Strategy and Customer Satisfaction:**

(Lai, M. C., & Chou, F. S. 2015) in their study, effects of service recovery handling on customer satisfaction and relationship retention in catering industry, discussed the relationship between service recovery handling and customer retention and explore the mediating effects of customer satisfaction. The customers of noble family in northern Taiwan were used as the research samples. A quantitative research was adopted. It was founded that, the correlations of the variables are consistent with the past research that service recovery would positively affect customer satisfaction, customer satisfaction would influence relationship retention, and service recovery shows significant correlations with relationship retention, on which customer satisfaction appears mediating effects. In the same vein, (Ganesan, S., & Klein, N. 2003) researched on service failure and recovery: The impact of relationship handling factors on customer satisfaction. The research investigated how customers' relationships with a service employee affect their reactions to service failure and recovery. The empirical results showed that clients or customers with greater expectations of transaction relationship had lower service recovery expectations after a service failure and also attributed that failure to a less stable cause. Both the lower recovery expectations and the lower stability attributions were associated with greater satisfaction with the service performance after the recovery.

Conversely, in their work (Al-Jader, R. A., & Sentosa, I. 2015) focused on empirical study on the mediating effect of E-service recovery satisfaction on the achievement of customer retention in the airline Industry in Malaysia. The study adopted quantitative approach to examine the relationships between customer determinants and retention. The study used the survey approach as a measurement instrument. A Likert scale that has five points response formats was used (Sekaran, U., & Bougie, R. 2016). The Structural Equation Modeling, and through the usage of SPSS and Amos software, was utilised to perform data analysis. The findings revealed the importance of integrating online technology in their plans to retain existing customers who present valuable source to guarantee future profits. As a limitation to the study, the current research will provide more variables that will impact the level of customer retention.

(Awa, H. O. *et al.*, 2014) carried out a study on service recovery and competitive positioning: The moderation effect of technical efficiency. The study attempts to provide insights into service recovery by proposing an extended framework that captures the main effects between recovery alternatives and indicators of competitive positioning as well as the moderation effects introduced by technical efficiency. The application of the study's findings is limited by its domain - competitive positioning instead of customers'

satisfaction and retention. Furthermore, in the same vein, (Mostert, P. G., & Petzer, D. J. 2012), on banking customers' attitudes toward complaining: The likelihood of voicing a complaint and service recovery they consider proper provided understanding to service recovery responses by customers when they experienced service failure. The study observed that respondents have a positive attitude towards complaining, and that they are more likely to voice a complaint when experiencing a service failure at their current bank than at another bank.

(XiaoRan, W., & Omar, R. 2014), in their study on service recovery activities and customer satisfaction: Mediating Role of Justice Dimensions: A Case Study of China, surveyed how Asian consumers respond to service recovery efforts, especially in China. It was noted that the impact of a hotel's service recovery strategies is derived from the Equity theory. Customer opinion of overall satisfaction is determined by apology, while providing cognitive control (that is, keeping customers informed) affects procedural justice. Finally, the manner in which service personnel handles a customer (politeness, respect, and courtesy) during the recovery process affects opinions of interactional justice. Three activities variables were used – Apology, cognitive control, and formality. Furthermore, (Ibrahim, M., & Abdallahamed, S. 2014), in their study, service recovery and customer satisfaction: A Case of Uganda Telecom, focused on examining the relationship between Service recovery based on firm's understanding of customers' grievances, as well as the handling of service recovery based on firm's fair treatment of customers' complaints and customers' satisfaction. The study showed a positive relationship between service recoveries based on firm's understanding of customer complaints, firm's fair treatment of customer complaints and customer satisfaction. The study also found a positive connection between service recovery and customer satisfaction. Consequently, this study hypothesizes that: H_{01} : There is no significant relationship between complaints handling strategy and customer satisfaction.

➤ **Compensation Strategy and Customer Positive Word of Mouth:**

In their study (Vázquez-Casielles, R. *et al.*, 2012), service recovery, satisfaction and behaviour intentions: analysis of compensation and social comparison communication strategies. A study on airline industry in Spain, integrated the following variables, financial compensation (compensation versus no compensation), social comparison (comparison versus no comparison). The surveys were randomly run throughout several days of the week. Each respondent received a survey kit consisting of a questionnaire and a randomly chosen scenario. A total of 450 individuals took part in the survey. Out of these, 18 questionnaires were removed from the analysis due to incomplete data. Several ANOVA analyses were carried out with anger, satisfaction and post-purchase behaviour intentions as

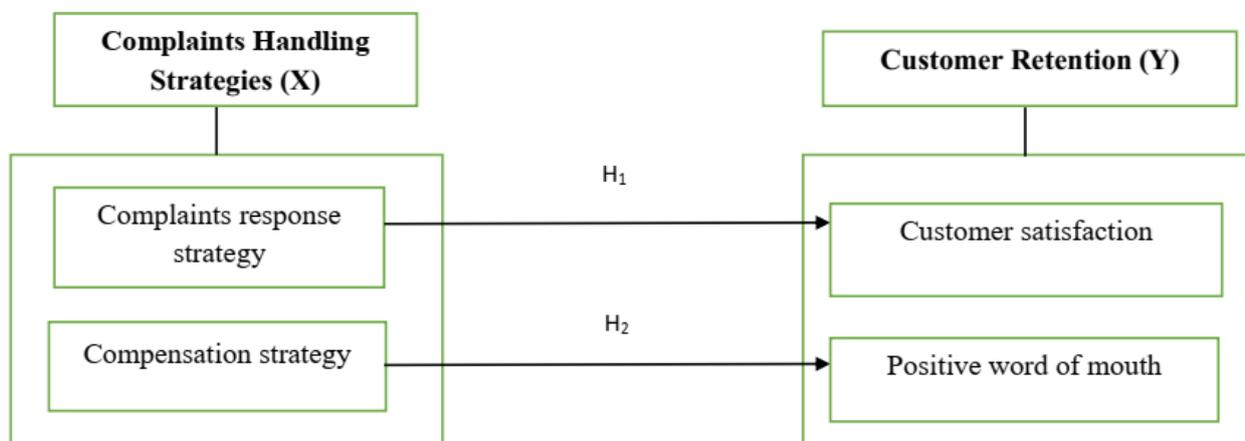
dependent variables. The results indicate that financial reward and social comparison increase satisfaction and that they have a positive impact on different behaviour intentions (repurchase intentions, positive or negative word of mouth communication, and complaints to the company and/or third parties).

Furthermore, (Wu, W. Y. *et al.*, 2013) researched a paper on identifying failure recovery strategies for paper industrial suppliers. This study thus discusses how a manufacturing company implements failure recovery to increase customer satisfaction and repurchase intention. The aims of the study were two-fold: (1) to understand how failure attributions and failure types affect customer satisfaction, and (2) to propose a general model of failure recovery and reward strategy for paper manufacturers that can be integrated into their standard operating procedures. The study adopted in-depth interviews with semi-structured open-ended questionnaires to get information from the experts. The results of in-depth interviews with 37 experts showed that in terms of reward approaches, intrinsic compensation (for example, apologising and providing reasonable explanations) and economic compensation (for example, providing product discounts or refunds) are shown to be more effective than product replacement.

In addition, (Lee, M. J. *et al.*, 2011), in their study, service failures and recovery actions in the hotel industry: A text-mining approach, focused on the computerized exploration of large amounts of textual data. Seven independent variables were identified, including: compensation. This experimental study used the critical incident technique approach with a sample of current hotel guests who were contacted at hotels. On issue of common service recovery actions, seven clusters were identified, indicating that hotels use various recovery actions from tangible rewards to quick solutions and relational actions. Similarly, (Kwon, S., &

Jang, S. S. 2012) study on effects of compensation for service recovery: From the equity theory perspective, empirically examined the different outcomes of reward by using the buyer relationship position. The level of customer relationship determines the angle of equity (transactional equity perception versus cumulative equity perception) and encourages the buyer to follow diverse psychological processes to redress service failure. A survey questionnaire was administered. Linear regression analyses were used for the data analysis. The outcomes of analysis of variance (ANOVA) indicated that when further reward is presented after a service failure, seeming equity was found to increase, irrespective of the consumer’s relationship level.

(Silber, I. *et al.*, 2009), in their study on recovery strategies for service failures: The case of restaurants in Israel, determined the efficiency of recovery strategies for various service failures in the restaurant industry. Efficiency was determined by the customers’ willingness to return (WTR) and visit the restaurant. The study adopted 3 independent variables - Compensation strategies, Assistance strategies, and no action strategy. The primary research employed was questionnaire. There are two important findings about service failure and recovery in restaurants. First, it is clear that customers demand a correction of the current problem using actions from the assistance strategy category and not a future solution from the compensation strategy category. Interestingly, this finding contradicts some common practitioners’ practices who believe that a coupon for future purchase would ease the customer who faced a service failure. Second, the findings demonstrate that within the assistance category, customers are consistent in finding the direct recovery action which is most applicable to their case. Hence, the study proposed that: H_{02} : Compensation strategy has no significant effect on a customer’s positive word of mouth.



Conceptual model: Complaints Handling Strategies and Customer Retention
Source: Researchers’ conceptual model

Methodology: Study Context, Sampling, Data Collection And Analytical Methods:

This study adopted cross-sectional survey research design. The design provides an opportunity to describe the variables through the collection of primary data that involves the use of structured questionnaire. A sample of 520 customers of banks in Nigeria has been scientifically determined from a population of 4,800,000. The sample size for the study was arrived at using the formula for a sample size determination for a finite population as provided by Taro Yamane (1967) and were randomly selected to participate in this study. The instrument for data collection was a structured questionnaire considered relevant in collecting feedback based on the opinion of the respondents and it is suitable for collecting data within a short time on present issues. To substantiate the hypotheses formulated, Pearson product moment correlation analysis and simple linear regression analysis was adopted in this study.

ANALYSIS AND RESULT:

❖ Validity and Reliability Test:

The research instrument was subjected to expert opinion. Average Variance Extracted (AVE) > 0.5 was treated as an additional evidence of convergent validity, the construct validity of all variables involved in the study was established through principal component factor analysis using varimax extraction method. The reliability test was conducted to ascertain whether the variables of the study measured consistently the factors intended. For the purpose of this study internal consistency measure using Cronbach’s Alpha was adopted for assessing reliability of all the variables. In addition, it is conducted to reduce errors and give stable results of the data collection. The reliability for each of these variables is accepted at a threshold of 0.7 and above. Table 1 below shows the validity and reliability statistic obtained for this study.

Table 1.1: Validity and Reliability Statistics

| S/N | Variables | No of Items | AVE | CR | CA |
|-----|------------------------------|-------------|-------|-------|------|
| A | Service Recovery Strategies: | | | | |
| 1 | Complaints handling | 6 | 0.809 | 0.949 | 0.89 |
| 2 | Compensation | 6 | 0.984 | 0.921 | 0.90 |
| B | Customer Retention: | | | | |
| 1 | Customers Satisfaction | 6 | 0.852 | 0.992 | 0.79 |
| 2 | Positive word-of-mouth (WOM) | 6 | 0.894 | 0.906 | 0.85 |

Source: Research Study, 2020

Hypotheses Testing:

Table 2: Mean, Standard Deviation and Correlation for all Variables

| Variable Name | Mean | SD | Complaints Response | Customers Satisfaction | Compensation | Positive word-of-mouth |
|------------------------|------|-------|---------------------|------------------------|----------------|------------------------|
| Complaints response | 4.11 | .777 | 1 | .768** (0.000) | .634** (0.000) | .522** (0.000) |
| Customers Satisfaction | 4.30 | .767 | | 1 | .651 (0.265) | .502** (0.000) |
| Compensation | 3.02 | 1.099 | | | 1 | 0.386* (0.000) |
| Positive word-of-mouth | 4.61 | 1.028 | | | | 1 |

Source: Author’s computation using SPSS V23 Correlation is significant at the 0.01 level (2-tailed).

Table 2 shows the Pearson’s product-moment correlation coefficient between complaints handling strategy and customer satisfaction. The result revealed that complaints handling strategy has a positive and significant relationship with customer satisfaction ($r=.768^{**}$, $\rho= .000$). This reveals that any positive

change in complaints handling strategy on customer satisfaction would lead to a higher level of customer satisfaction. Based on this finding, the null hypothesis (H_{01}) which states that there is no significant relationship between complaints handling strategy and customer satisfaction is hereby rejected.

Table 1.8: Model Summary for Regression Analysis for influence of Compensation strategy on customer’s positive word of Mouth

| Model ¹ | Beta | t | Sig. | R | R ² | Adj. R ² | F(df) | ANOVA Sig |
|-------------------------|--------|--------|-------|--------------------|----------------|---------------------|----------------|-----------|
| ¹ (Constant) | 22.436 | 34.908 | 0.000 | 0.386 ^a | 0.149 | 0.138 | 79.504 (1,456) | 0.000 |
| Compensation Strategy | .288 | 8.916 | 0.000 | | | | | |

- a. Dependent Variable: Customers Positive Word of Mouth
- b. Predictor variable: Compensation Strategy

Table 1.8 illustrates regression analysis of compensation strategy on customer's positive word of mouth. From table 1.6, compensation strategy has positive and significant influence on customer's positive word of mouth in Lagos State ($\beta = .288$, $t = 8.916$, $p = 0.000$). The result further shows that there is a positive linear relationship between compensation strategy and customer's positive word of mouth of selected banks. This is shown by a correlation (R) coefficient of 0.386. In addition, 14.9% of the variations in customer's positive word of mouth are explained by compensation strategy, while 85.1% remains unexplained by the regression model. Overall, the explanatory power of the model was considered statistically significant with the F ratio output of the model reporting a p-value of .000 ($F_{(1, 456)} = 79.504$, $p < 0.05$).

Further analysis shows that, taking compensation strategy constant at zero, customer's positive word of mouth was 22.436. From the model, the unstandardized coefficient of Compensation strategy was 0.288, which denotes that a unit increase in compensation strategy would lead to 0.288-unit increase in customer's positive word of mouth. The significant value is less than 0.05. Therefore, the null hypothesis four (H_{02}) which states that compensation strategy has no significant influence on a customer's positive word of mouth is hereby rejected.

DISCUSSION, CONCLUSION AND RECOMMENDATION:

The finding of hypothesis one states that there is a significant relationship between complaints response strategy and customer satisfaction. The result agreed with the study of previous researchers like the study of (Lai, M. C., & Chou, F. S. 2015) who found that service recovery positively affects customer satisfaction, and customer satisfaction influences relationship retention, and service recovery shows significant correlations with relationship retention. (Ganesan, S., & Klein, N. 2003) discovered that clients or customers with greater expectations of transaction relationship had lower service recovery expectations after a service failure and also attributed that failure to a less stable cause. Both the lower recovery expectations and the lower stability attributions were associated with greater satisfaction with the service performance after the recovery.

The result of hypothesis second revealed that compensation strategy has a significant influence on a customer's positive word of mouth. The finding is supported by the previous researchers such as (Vázquez-Casielles, R. *et al.*, 2012; Wu, W. Y. *et al.*, 2013; & Lee, M. J. *et al.*, 2011). (Vázquez-Casielles, R. *et al.*, 2012) found that financial reward and social comparison increase satisfaction and that they have a positive impact on different behaviour intentions (repurchase intentions, positive or negative word of mouth communication, and complaints to the company and/or third parties). (Wu, W. Y. *et al.*, 2013) found that

in terms of reward approaches, intrinsic compensation (for example, apologizing and providing reasonable explanations) and economic compensation (for example, providing product discounts or refunds) is shown to be more effective than product replacement. The recommend that management of banks in Nigeria should commit more resources to the mechanisms of handling customer complaints so that customer issues and feedbacks can be addressed more quickly. This is important because of the ripple effect of customer retention to business continuity.

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