

BANKING SERVICE RECOVERY STRATEGIES: ENHANCING RELATIONSHIP QUALITY AND BEHAVIORAL INTENTIONS

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Abstract: This study explored the effect of service recovery strategies (apologies, explanations, empathy) on customer relationship quality and repurchase intentions in the Egyptian banking sector. Data were collected from a large sample of 517 Egyptian bank customers who experienced service failure through an online survey. The data was analysed using SmartPLS 4 software, and the results showed that service recovery strategies such as apologies, explanations, and empathy significantly positively impact customer relationship quality. Moreover, the results also emphasized the critical role of high relationship quality in enhancing customers repurchase intentions. Consequently, these findings indicate the importance of banking organizations systematically adopting service recovery strategies and building strong customer relationships to maintain satisfaction and repurchase intentions. Furthermore, this study contributes to a better understanding of the role of service recovery strategies in customer relationship management in Egyptian banking.

Keywords: Apology, Explanation, empathy, relationship quality, repurchase intentions, banking sector, Egypt

Introduction

Service failure is inevitable, and despite the precautions service providers take to avoid it, they cannot prevent all service failures (Maxham, 2001). Financial services, especially banks, are among the service firms experiencing intense competition globally (Pereira Câmara Leal, de Oliveira and Feldman Soluri, 2003). Consequently, financial services characteristics are easily duplicated in intense competition (Gelbrich and Roschk, 2011). Therefore, financial service providers must differentiate their services and establish their position with competitors by offering value-added services. Hence, bank managers must adapt to evolving consumer demands and guarantee the fulfillment of customers' expectations. A service failure occurs when a company fails to deliver the services promised to customers, where any form of failure, whether primary or complicated in the banking services, may result in consumer losses (Singhal, Krishna and Lazarus, 2013). Banking managers may adopt suitable service recovery by analyzing the dynamics of the link between customer behavior and service failure severity to overcome some of the banking industry's major categorized causes that can contribute to service failures, such as slow banking, bureaucracy, and ATM-related problems such as a limited ATM network (Azemi *et al.*, 2019). Service recovery refers to the deliberate measures taken to address issues, change the unfavorable opinions of unsatisfied customers, improve their willingness to make future purchases, and ultimately maintain their loyalty (Miller, Craighead and Karwan, 2000). Consequently, service providers might gain advantages by addressing a service failure in a manner that customers find gratifying (Najjar, Smith and Kettinger, 2010). According to Kim and Tang, (2016), service failure presents a genuine opportunity

for a firm to enhance the quality of customer relationships. Hence, proficient service recovery is crucial in obtaining a competitive edge and has emerged as a pivotal subject in enhancing connection quality. (Michel, Bowen and Johnston, 2009). Consequently, while there is a substantial body of study on service strategies, comparatively little research has been undertaken on service-oriented businesses like banking, particularly in recovery. Moreover, there is still a continuous need to perform additional and renewable scientific research in this area, specifically in sight of the increasing growth of the services industry in the markets of various nations across the globe and the ongoing improvements of marketing and customer service technologies (Zhu, Sivakumar and Parasuraman, 2004). As a result, the current study focuses on how banks can efficiently retain lasting connections with their customers in the event of service failure. The primary objective of this research is to examine the impact of bank service recovery strategies on customers' relationship quality and repurchase intentions.

1.1 The relationship between service recovery strategies and relationship quality

According to Kim and Benbasat, (2006) the extent customers engage in relationship marketing is influenced by multiple factors, not just the personal connection between service providers and customers. Therefore, commitment, trust, and contentment were regarded as important aspects of relationship quality (Verma, Sharma and Sheth, 2016). Therefore, despite occasional service failures, service recovery significantly impacts the quality of the relationship between consumers and service providers. Thus, it instills confidence in customers that long-term service providers will deliver advantages. Conversely, if a customer is dissatisfied with the company's remedial actions, the customer-enterprise relationship may be terminated (Parasuraman, Zeithaml and Berry, 2002). Hence, service recovery is a component of quality management that aims to preserve a positive relationship between businesses and customers (Schweikhart, Strasser and Kennedy, 1993). As a result, good service recovery strategies such as apology and empathy can improve customer satisfaction and promote customer trust in businesses, and compensatory service recovery can improve customer satisfaction and enhance relationship quality (Chuang *et al.*, 2012). Furthermore, according to the literature analysis, satisfaction, trust, and commitment characteristics are essential for evaluating the construct of relationship quality. Consequently, prior research has shown that certain aspects of service recovery directly impact customer satisfaction with service recovery, which is considered a component of relationship quality (Kandulapati and Bellamkonda, 2014; Kandulapati and Bellamkonda, 2014). Thus, according to above discussion the following hypothesis will be formulated:

H1. Apology will positively influence relationship quality.

H2. Explanations will positively influence relationship quality.

H3. Empathy will positively influence relationship quality.

1.2 The relationship between relationship quality and repurchase intentions.

Relationship quality (RQ) pertains to consumer perception and evaluation of how well a relationship fits their needs, aspirations, expectations, and goals (Kim and Cha, 2002). Furthermore, a strong RQ indicates that the customer trusts the service provider's ability to deliver on commitments made in the past, which have been consistently satisfied (Olavarria-Jaraba *et al.*, 2018), consequently, higher levels of customer trust and affective

commitment correlate with elevated relationship quality standards. Thus, increased customer trust and affective commitment levels correlate with improved customer retention and behavioral intentions, generating a more favorable WOM and repurchase intentions. Furthermore, (Olavarria-Jaraba *et al.*, 2018; Shirkhodaie and Rastgoo-deylami, 2016) discovered a strong correlation between RQ and favorable WOM and RI. Additionally, (Nadiri, 2016; Garepasha and Aali, 2020) indicates that RQ significantly impacts consumers' WOM communication and propensity to repurchase. Similarly, RQ is a strong predictor of repurchase intentions and loyalty in the banking environment (Ngoc Phan and Ghantous, 2013; van Esterik-Plasmeijer and van Raaij, 2017). As a result, this study hypothesized that RQ plays a crucial role in determining RI. Thus, the following hypothesis will be formulated:

H4. Relationship quality will positively influence repurchase intentions.

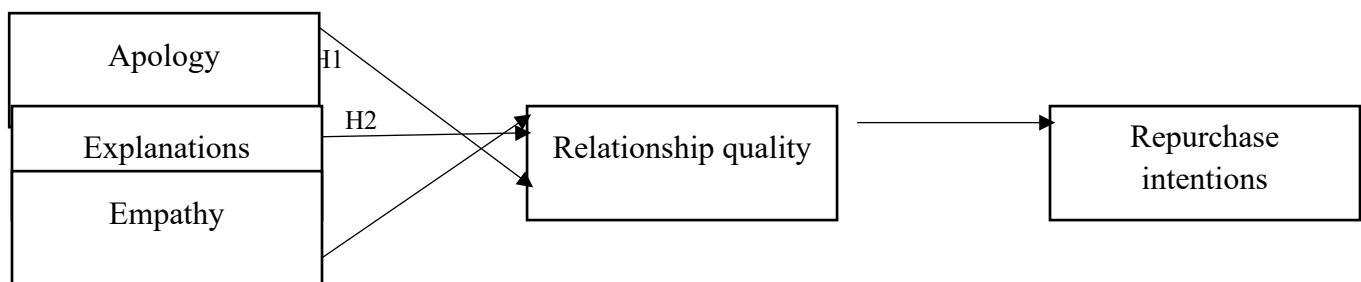


Figure 1. Proposed study model

Data collection and measures

Data for this comprehensive and detailed study was collected from the Egyptian banking industry through an online survey to explore and understand customers' views and perceptions about their experiences with service failure and recovery from banking failure situations. Therefore, to ensure that participants belonged to the target population for the study, some screening questions were used to verify that participants had active bank accounts and had experienced failures or service-related issues. Moreover, data were collected from a large and diverse sample of 517 bank customers who experienced a service failure while dealing with a banking institution in different geographical regions across Egypt, ensuring a fair representation of various backgrounds and experiences. Furthermore, the online survey collected participant responses through an elaborate questionnaire that used the popular five-point Likert scale ranging from "strongly disagree (1)" to "strongly agree (5)," allowing participants to accurately express their degree of agreement with various statements related to the topic under study.

The study survey used in this study was developed from existing instruments referenced in relevant marketing literature. More specifically, service recovery strategies such as offering apologies were measured using (4) items from previous studies (Varela-Neira, Vázquez-Casielles and Iglesias, 2010, Liao, 2007, Bradley and Sparks, 2012). As for the explanations, the component was measured using (4) items adapted from (Liao, 2007, Boshoff, 2005). At the same time, (3) items were used to measure empathy, derived from (Liao, 2007, Boshoff, 2005). Furthermore, (6) items were used to measure relationship quality (Aurier and Siadou-Martin, 2007, Grégoire and Fisher, 2008). Finally, (6) items to measure repurchase intentions were adopted from studies (Zeithaml, 2000; Bacile *et al.*,

2018). The questionnaire used in this study consisted of two main sections. The first section includes participants' demographic data such as age, gender, and education level. According to the general profile of the respondents, most of them were young people with a good level of education. The second section included 22 paragraphs covering the main variables of interest to the study. Demographic analysis revealed essential characteristics of the research participants. Thus, (53.2%) of the sample members were male, and (46.8%) were female.

The largest group was between 21 and 30 years old (50.7%). This was followed by individuals aged 31 to 40 (27.7%). Most participants (60.3%) had a bachelor's degree. Furthermore, most participants were full-time employees. Participants mostly had an excellent educational background, which fulfilled the survey requirements. Table 1 displays demographic data and provides complete descriptive information on participant characteristics.

Table 1. Sample Profile

	Egypt (N=517)	
Gender	Frequency	Percent
Male	275	53.2%
Female	242	46.8%
Age		
From 18 to 20	24	4.6%
From 21 to 30	262	50.7%
From 31 to 40	143	27.7%
From 41 to 50	30	5.8%
From 51 to 60	27	5.2%
More than 60	31	6%
Education		
Less than a high school diploma	9	1.7%
High school	51	9.9%
Bachelor's degree	312	60.3%
Postgraduate degree	130	25.1%
Other	15	2.9%
Work statue		
Full time	192	37.1%
Part-time	82	15.9%
Not employed and seeking employment	59	11.4%
Not employed and not seeking employment	10	1.9%
Student	79	15.3%
Retired	55	10.6%
Other	40	7.7%
Marital status		
Single	246	47.6%
Married	210	40.6%
Divorced	32	6.2%
Widowed	23	4.4%
Other	6	1.2%

Data analysis

The study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using Smart-PLS 4.0, a well-recognized method for evaluating path models with composites, mainly for theory testing. In the study's comprehensive evaluation of the internal consistency and reliability of our variables, we utilized both Cronbach's Alpha (CA) and Composite Reliability (CR), adhering to the guidelines of (Hair Jr *et al.*, 2021). Table 2 and figure (2) shows that all variables exhibit strong CA and CR values, all exceeding 0.7, affirming their robust internal consistency. Moreover, as indicated in Table 2, all items significantly exceeded the factor loading threshold with loadings above 0.70, and every construct also surpassed the AVE threshold, with values well over 0.50. These findings confirm strong convergent validity, consistent with the standards outlined by (Hair *et al.*, 2021). In addition, the Standardized Root Mean Square Residual (SRMR) results, used as a measure of goodness-of-fit for Partial Least Squares Structural Equation Modeling (PLS-SEM), showed a value of 0.051. Besides, the normed fit index (NFI) was found to be 0.91, indicating that the model satisfies the required criteria.

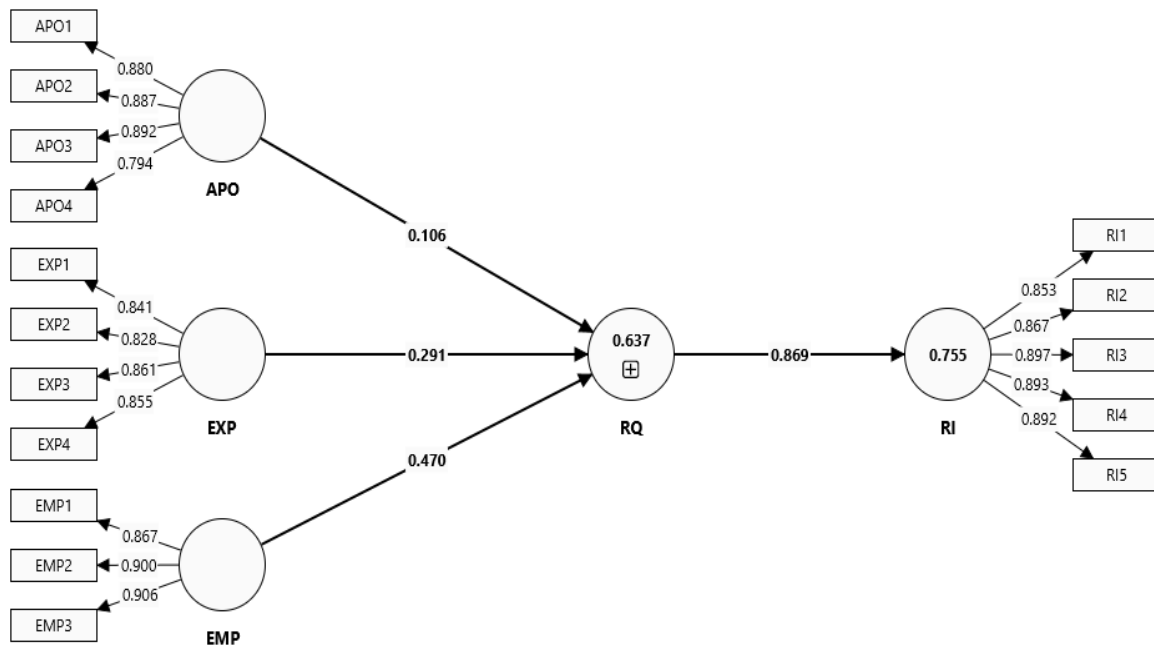


Figure 2. Measurement model assessment

Table 2. Assessment of measurement model

Variables	Codes	Outer loadings	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)	VIF
QR	RQ 1	0.775	0.907	0.908	0.928	0.683	1.922
	RQ 2	0.843					2.557
	RQ 3	0.839					2.504
	RQ 4	0.822					2.423
	RQ 5	0.836					2.379
	RQ 6	0.841					2.496
APO	APO1	0.880	0.886	0.888	0.922	0.747	2.895
	APO2	0.887					2.980
	APO3	0.892					2.722
	APO4	0.794					1.810
EMP	EMP1	0.867	0.871	0.876	0.920	0.794	2.120
	EMP2	0.900					2.371
	EMP3	0.906					2.507
EXP	EXP1	0.841	0.868	0.870	0.910	0.716	2.021
	EXP2	0.828					1.971
	EXP3	0.861					2.189
	EXP4	0.855					2.175
RI	RI1	0.853	0.927	0.928	0.945	0.775	2.489
	RI2	0.867					2.699
	RI3	0.897					3.716
	RI4	0.893					3.233
	RI5	0.892					3.576

Note: **Note:** APO: Apology; EXP: Explanations; EMP: Empathy; RQ; relationship quality; RI: Repurchase intentions

The Fornell-Larcker criterion was used to validate the discriminant validity of our measures and compare the diagonal values (square root of AVE) against the correlation values listed below.

Table 3. Discriminant validity using the Fornell-Larcker Criterion

	APO	EMP	EXP	RI	RQ
APO	0.864				
EMP	0.654	0.891			
EXP	0.634	0.785	0.846		
RI	0.561	0.719	0.704	0.881	
RQ	0.598	0.768	0.728	0.869	

Note: **Note:** APO: Apology; EXP: Explanations; EMP: Empathy; RQ; relationship quality; RI: Repurchase intentions

3.1 Structural model assessment and hypotheses testing

After a detailed examination of the measurement model, it focused on evaluating collinearity in the structural model. Hence, this involved an extensive analysis of key indicators such as the inner Variance Inflation Factor (VIF) and the coefficient of determination (R^2) values. Table 4 shows that all the established R^2 and inner VIF thresholds were met, indicating no significant collinearity concerns. Moreover, the relationships between the study variables have been tested and showed that APO significantly positively affect RQ ($\beta=0.106$, $T=2.087$, $p < .005$), which is mean H1 is supported. Besides, it's evident that EXP positively influence RQ ($\beta=0.291$, $T=4.743$, $p < .005$), which means that H2 is supported. On the hand, EMP is significantly positively influence RQ ($\beta= 0.470$, $T = 7.314$, $p < .005$), which is means that H3 is supported. Furthermore, the findings showed that RI positively impacted by RQ ($\beta= 0.869$, $T = 56.575$, $p < .005$), thus H4 is supported.

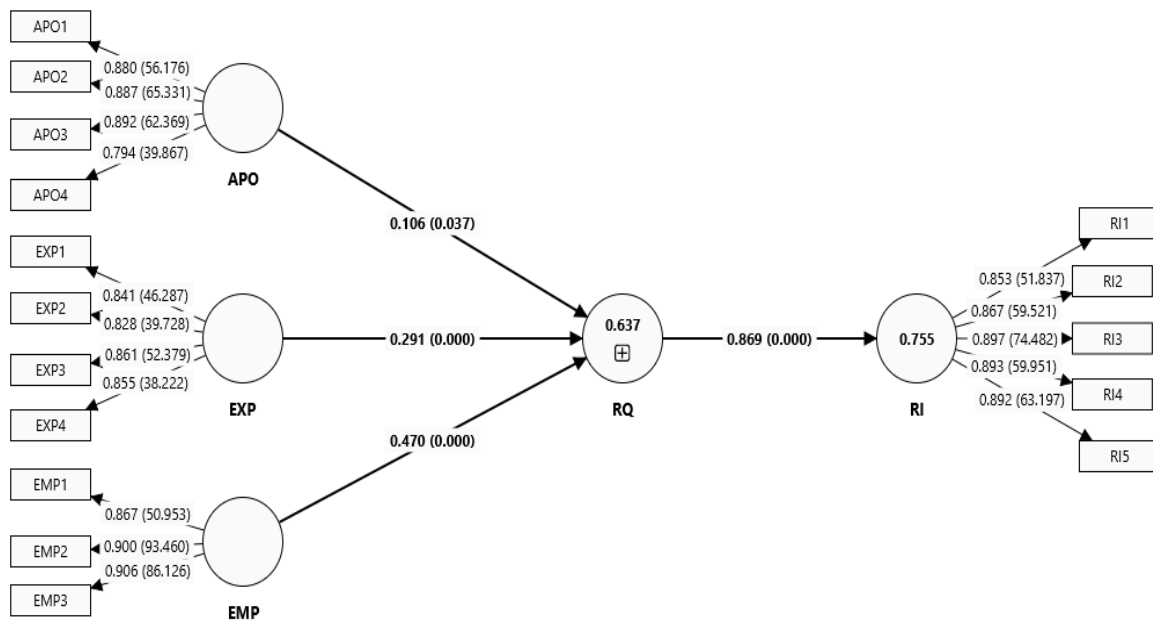


Figure 3. Assessment of structure model

Table 4. Results of hypothesis testing

Bath	B	T value	P values	R^2	VIF	Remark
APO -> RQ	0.106	2.087	0.037	0.637	1.870	Supported*
EMP -> RQ	0.470	7.314	0.000		2.920	Supported*
EXP -> RQ	0.291	4.743	0.000		2.792	Supported*
RQ -> RI	0.869	56.575	0.000	0.755	1.000	Supported*

Source: Author's analysis *Relationships are significant at $P < 0.05$

Discussion and conclusion

Due to the expansion of financial services, service failures have become inevitable. Consequently, these failures often involve mishandled consumer requests, insufficient disclosure of crucial transaction information, technological issues caused by financial professionals, and more (Wang, Hsu and Chih, 2014). Therefore, service managers must understand how to recover from these breakdowns and establish efficient recovery methods effectively. However, there is a lack of knowledge regarding how banks can implement service recovery strategies and how this impacts customer relationship quality and behavioral intentions.

The study's primary objective is to investigate the correlation between service recovery tactics, such as apology, explanations, and empathy, and factors like relationship quality and repurchase intentions. In addition, offer efficient and actionable suggestions to enhance the performance of the Egyptian banking industry. The result showed that APO positively impacted RQ. Thus, this indicates that offering sincere and kind apologies to service providers after a service failure enhances the overall quality of the customer relationship. An apology shows responsibility, remorse, and a desire to handle the failure, which can help mitigate the negative impact of a service failure, rebuild trust, and build a good relationship with customers. Moreover, when providers explain the reasons for service failure and how they can handle it, the reasons why, it helps customers understand the context and shows a commitment to addressing their concerns, which can foster a stronger, more durable relationship. On the other hand, when customers feel that their perceptions and emotions are acknowledged and validated, it can help relieve frustration, build emotional connections, and foster a feeling of care and concern by the service provider, which ultimately enhances the overall quality of the relationship. These findings consist of the findings of (Komunda and Osarenkhoe, 2012; Honore Petnji Yaya, Marimon and Casadesus, 2013; Kandulapati and Bellamkonda, 2014; Stratemeyer, Geringer and Canton, 2014) that concluded that service recovery strategies will improve relationship quality. Furthermore, the positive and significant effect of relationship quality on repurchase intentions confirms the crucial role of the relationship quality between customers and banking service providers in enhancing customer loyalty and retention and increasing purchase intentions. Thus, when customers perceive a high level of relationship quality characterized by trust, commitment, and satisfaction, they are more likely to continue dealing with the service provider and have higher intentions to repurchase their services or products. These findings are like the findings of (Sadachar, 2014; Park and Ha, 2016; Sharma, 2015).

In conclusion, service recovery strategies are critical in maintaining positive customer relationships after service failures. Thus, the results of this study show that offering apologies, clear explanations, and showing empathy from service providers has a significant positive impact on the quality of the relationship with customers. Furthermore, the results showed the importance of maintaining high-quality customer relationships linked to higher repurchase intentions. Therefore, it is vital that banks systematically adopt service recovery strategies and train their employees to handle service failures in a professional and empathetic manner. In addition, it must also focus on building solid and long-term relationships with customers through commitment, transparency, and responsiveness to their needs. Hence, this will help maintain customer satisfaction and loyalty, enhancing the long-term success and profitability of the bank. The study has some

limitations. For example, it was conducted in the context of the Egyptian banking industry only, which may limit the generalizability of the findings to other sectors or countries. Moreover, data were collected through an online survey, which may result in participant bias or inaccurate answers. Besides, the study focused on three main service recovery strategies (apologies, explanations, empathy), while there may be other strategies that were not addressed. Finally, the data was collected over a specific time, which may not reflect dynamic changes in customer perceptions and preferences over the long term. Despite these limitations, this study provides valuable insights into the importance of service recovery strategies and the quality of customer relationships in the banking sector.

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