

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

Service recovery in the banking industry in Chile remains undefined from the perspective of the customer. This chapter introduces the main topic of the research: service recovery in the banking industry in Chile and the influence of switching barriers on service recovery evaluation. First, the research problem and the country and industry in which the study is based are described. Then the research objectives are established. Finally, the need for this research is discussed and an overview of the thesis is provided.

1.2 RESEARCH PROBLEM

A core marketing activity is to assist businesses in offering a high quality of service or product so that they can increase customer satisfaction which in turn leads to customer repurchase and long term loyalty (Kotler et al., 2003). In the face of increasing competition, businesses are moving from a transactional way of thinking to a strategic one focused on building relationships with customers. Buttle (1996:5) has shown that the impetus for the development of relationships with customers has been a growing awareness of the long-term financial benefits such a strategy can provide.

In order to achieve these long-term financial benefits, companies must design and deliver a service that pleases customers, so they have a positive experience during the service encounter (Lovelock et al., 2004). To do so, companies must identify those factors that contribute to generating positive experiences for customers. Some of these factors are more obvious than others and not all experiences involve the same factors. To facilitate the understanding of the service experience, the services marketing mix has been developed as a model that contains controllable marketing variables that organizations should use to satisfy customers (Fisk et al., 2007). The basis for this model is the four Ps of marketing (product, price, promotion and place). The services marketing mix extends the framework by adding three new Ps, which are participants or people, physical evidence and process of service assembly, in order to capture the essence of services marketing (Booms and Bitner, 1981). Participants refer to customers or workers who are involved in the service production; physical evidence to the service environment and other tangible aspects of the service that facilitate or communicate its quality and nature; and process of service assembly to the procedures and flow of

activities that contribute to the delivery of the service. These additional Ps provide a framework for analyzing service experience and highlight the critical components that characterize service exchange. These three Ps are interrelated and can affect the experience of the customer during the service encounter (Fisk et al., 2007:38).

Regarding the P related to participants, Fisk et al., (2007:100) argue that the service worker is the face of the company and their personal interaction with the customer is the intangible element of the service but is key to the customer's overall service satisfaction. In terms of customers as participants, Vargo and Lush (2004), based on a new marketing perspective they termed as the service-dominant (S-D) logic of marketing, established that the relationship between the organization and the customer has changed. The latter has been promoted to a co-producer of value who is constantly communicating with the firm to improve the quality of the offering (Vargo and Lush, 2004). The S-D logic says that customers create value through service experience and relationships with both organizations and suppliers, especially in the co-creation and sharing of resources, skills and knowledge. Gummerson (2006) stated that the S-D logic could potentially pave the way toward improved offerings and perhaps an even more responsible way of marketing.

Despite the consensus regarding the importance of offering high quality services, service failure remains a problematic issue for almost every business in the world (Ennew and Shoefler, 2004). A service delivery system fails when it cannot deliver a service as promised (Ahmad, 2002).

One of the consequences of service failure is an increase in the level of customer dissatisfaction. Some customers manifest their discontent by complaining to their suppliers, but an alarming fact is that most customers do not complain. Literature shows that only a small percentage (approximately 4%) of dissatisfied customers complain (Chakrapani, 1998:12). Often customers don't complain because they have had bad experiences when they have done so in the past and hence feel that complaining is a waste of time. This situation occurs because not all businesses are well organized to handle complaints, and many of them have a negative attitude toward complaints (Chakrapani, 1998:13).

All actions that a business may take to rectify a service failure are considered as service recovery efforts. The prevalence of service failure in retail service settings and the growth in importance of the service sector in the world's economy, both point to the need for a better understanding of the role that service recovery should play in today's

marketplace. In addition, service recovery continues to receive increased attention, in part due to rising customer expectations and competitive marketplace responses designed to meet and exceed those expectations (Brown et al., 1996). Finally, businesses working under changing market conditions must listen and rapidly respond to customer complaints in order to remain in touch with their expectations (Barlow and Moller, 1996:23).

Despite its strategic relevance, businesses are not giving complaint management the importance it deserves (Stauss, 2002). Zairi (2000) outlines the sorts of challenges that most businesses face in customer complaint handling, namely: they do not recognize its importance, they lack technology or a systematic approach, they have cultures adverse to customer complaints and, finally, they have failed to embrace the concept of quality management. On the other hand, more businesses are looking at complaints as a positive source of information and a way of improving the quality of their services and products. An outcome of this is understanding how businesses encourage customers to speak up every time they have a problem. However, for this to be a successful strategy, businesses must be prepared to handle customers' complaints effectively. If complaints are not handled professionally, an opportunity to obtain valuable information pertaining to customer concerns is lost, or worse, customers may stop doing business with the organization altogether. Conversely, when businesses respond to complaints promptly and satisfactorily, it is likely that customers will increase their degree of loyalty (Stauss, 2002).

Boshoff and Leong (1998) established that there are several aspects that inhibit businesses from designing mechanisms for handling complaints effectively. They are:

- a) The fact that there is little information to guide managerial decision making.
- b) There is no instrument to measure satisfaction with service recovery.
- c) The dimensions of satisfaction with service recovery are not known.

For these reasons, Brown et al. (1996) argued that service recovery efforts warrant more systematic investigation of the concept and its related variables. Similarly, Lewis and McCann (2004) noticed that academic research on service failure and recovery is relatively recent and is still evolving and therefore needs more investigation.

Andreassen (2001; 2000) argued that several studies have focused on antecedents of service recovery and that customer complaint handling and complaint resolution seem to be neglected areas. Davidow (2003) found that slightly more than 50 articles have appeared that empirically examine the relationship between some aspects of the

organizational complaint response and post-complaint customer behavior including customer satisfaction with the complaint response. Despite this research, Davidow (2003) points out that there is no consensus on how businesses should respond to complaints, nor as to what are their most important dimensions, and that few empirical researchers have ever looked at more than three dimensions at once, or used the same dimensions in their studies on each occasion.

Apart from these gaps in service recovery knowledge of marketing practice, most of the existing studies on service failure and recovery have been undertaken within western industrialized countries. There is almost no information about service recovery in South American countries, which have a different cultural and socio-economic background. Kanousi's (2005) findings show that culture has an impact on service recovery expectations, which is in line with previous research that has studied the role of culture on service quality (Furrer et al., 2000; Malhotra et al., 2004; Mattila, 1999). Furthermore, other researchers have argued that conceptual models developed in a particular cultural context and socio-economic environment cannot be totally transferred and generalized to another one (Menguc, 1996; Spreng and Chiou, 2002; Yavas et al., 2003). Because a specific cultural context affects the outcome of any research conducted on service failure and recovery, businesses from Chile are in a difficult situation due to the lack of valid information on service recovery that could be used to arrive at sound decisions.

In terms of switching barriers¹, increasing competition puts pressure on businesses to improve the quality of services they offer in order to increase the probability of retaining their customers. Ranaweera and Prabhu (2003) mentioned that companies might retain their customers by creating switching barriers that add value to their services. Yanamandram and White (2006) argued that no research has focused on the effect of switching barriers amongst dissatisfied customers. Hence, the outcome of switching barriers on service recovery evaluation is unknown. The influence of more negative switching barriers, such as switching costs, on customer satisfaction about the way businesses handle complaints has also not been studied. Estelami (2000) recommended studying this area, which will allow businesses to make better managerial decisions about the switching barriers they should choose to improve their relationship with the customer.

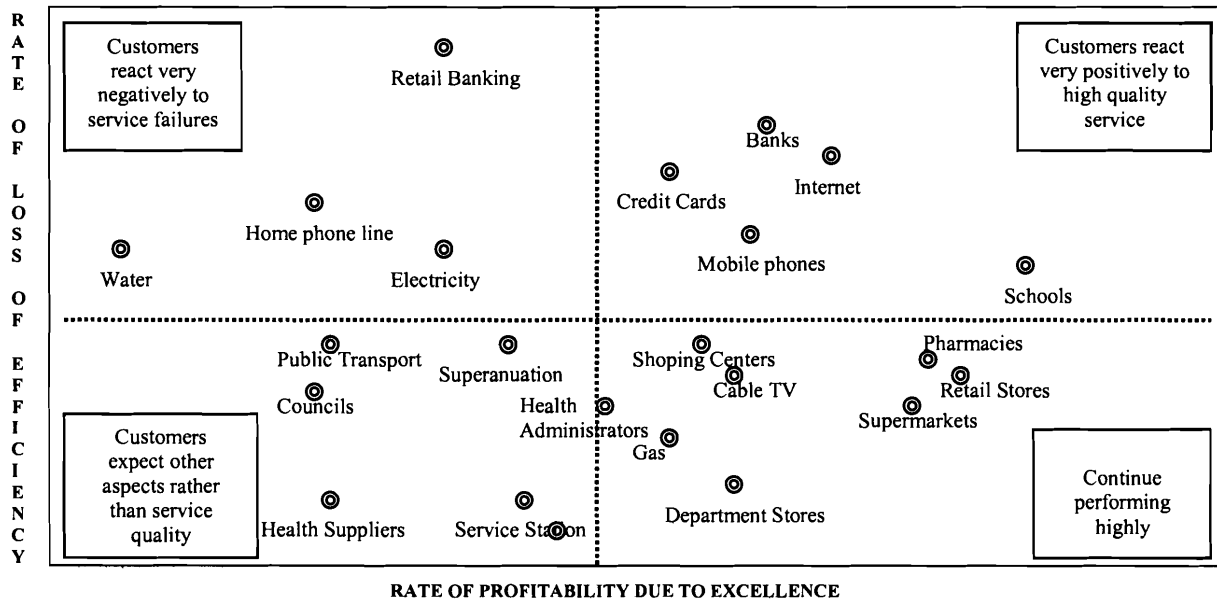
¹ As defined by Jones et al (2000), a switching barrier is any factor that makes it difficult or costly for customers to change providers.

1.3 COUNTRY AND INDUSTRY UNDER STUDY

The research in the thesis is based on the retail banking industry in the South American country of Chile. Chile is located close to Argentina and Peru and its economy is one of the most solid and stable in Latin America with a GDP per capita annual growth rate of 4.1% in the period from 1975 to 1990 and 4.4% in the period from 1990 to 2002 (Human Development Report, 2004). Out of 24 Latin American countries, Chile is the only country whose level of human development rose from the medium category in 1960 to the upper category in 1990. Chile ranks 40th on the world scale and 13th in Latin America. It is a country that has experienced a huge increase in internal customer demand as a consequence of fast economic growth during the last decade (Latin-focus, 2004). Businesses must therefore be increasingly ready to respond properly to customer complaints if they are to satisfy and retain their customers. Unfortunately, valid information on which to base their decisions is not available, thus making service failure more likely to happen. This issue is even more relevant due to the growing number of businesses competing in the market, which makes it easier for a customer to switch suppliers if their expectations are not met.

There are two main reasons for selecting the retail banking industry for the research in this thesis. First, because customers from different industries have different expectations and therefore require different research objectives, the research was based only on the retail banking industry (Valenzuela et al., 2006). Second, previous research done in developed countries has evaluated service recovery in the banking industry. Boshoff (2000), for instance, views the banking industry as an ideal environment to test models of service recovery due to its highly competitive nature, high levels of customer contact and relatively long-term relationships with customers. Similarly, Batton (1996) mentioned that in a highly competitive market it is more profitable to retain customers through developing relationships than to devote high levels of marketing effort for acquiring new customers. In addition, as Figure 1.1 shows, customers in the retail banking industry are more sensitive to service failures because they tend to perceive banks that make mistakes as less value for money and are likely to engage in negative word of mouth and reduce their intentions to stay with the bank (ProCalidad, 2006). To minimise these negative effects, Chilean banks must be ready to respond effectively to customer complaints that arise from service failures.

Figure 1.1 Positioning of Industries in Chile (Procalidad, 2006)



The Chilean banking industry possesses certain special characteristics that make it ideal to study customer evaluation of bank service recovery efforts and switching barriers. In Chile, the financial sector has grown faster than any other area of the economy over the last few years (Latin-Focus, 2004), and it has shown relative strength in a weak economic environment over the last year. This is partly due to the liberalization of capital markets in 2001, resulting in the introduction of new financial tools, including home equity loans, currency futures and options, factoring, leasing, and debit cards. As a result, the Chilean banking sector is now one of the most developed and sophisticated among the South American countries. Because of this, relationship marketing has become a very important issue in this industry, including the features of service quality and service recovery.

To support the development of relationships with their customers, Chilean banks have customer service officers who deal directly with customers. These customer service officers are bank employees who are the main link between the bank and a group of customers, and they are in charge of taking care of all customer needs. The role of these staff is highly important to customers and in the eyes of many customers the customer service officer is the bank. Due to the strong and close relationship that is developed over time between customers and customer service officers, the first and most likely option the former have is to lodge their complaints by contacting the latter.

The Chilean banking industry encompasses two broad segments: global banking and niche banking. Global banks have a strategy of multiple products and services for

several domestic and foreign segments. Niche banks offer only some products and services to a specific segment (Wigodski and Torres, 2004). Chilean banks can be divided into 5 groups (Wigodski and Torres, 2004).

- a. Large Size Global Banks which focus on both corporate and retail customers. They have tried to penetrate new markets and attract new customers. In order to do so, they have acquired other banks and merged with others.
- b. Smaller Size Global Banks that focus on both corporate and retail customers. They have similar strategies to the larger sized global banks. The main difference is that they have tried to attract markets not targeted by larger banks. These new segments are micro and small sized businesses.
- c. Banks which place emphasis on higher income clients. They focus on both corporate and retail customers, offer a high level of service and concentrate on service quality and relationship marketing.
- d. Niche banks that focus only on one segment of the market and aim to offer a good level of service at a low cost.
- e. Foreign owned niche banks which focus only on one segment of the market and they aim to offer a low cost service but with a good level of service.

Considering the conclusions obtained by Wigodski and Torres (2004) regarding the communalities of banks belonging to some of the aforementioned groups, these five groups were regrouped into: a) global banks, b) banks focused on higher income corporate and retail customers and c) niche banks.

In terms of the number of banks, the Chilean banking industry comprises 27 banks (Chilean Financial Institutions Association report, 2005). One of these banks is publicly owned while the rest are privately owned. These banks were classified into the three groups mentioned earlier and by doing this the first group consisted of nine banks, the second group three and the third group 15. It is important to mention that the third segment was sub-divided into two categories, dependent upon the ownership of the banks (domestic or foreign). The reason for this is that domestically owned banks focus only on retail banking, but this is not necessarily the case with foreign owned niche banks (some of them may focus on corporate customers only), so more information is needed to determine if these foreign banks should be included in the study.

The research for the thesis centred only on retail banking customers. This demographic have different needs compared to those of corporate banking customers

whereby different conceptual frameworks may be required so as to understand their behavior.

1.4 RESEARCH OBJECTIVES

The main goal of this research is to evaluate service recovery in Chile in order to explore ways in which banks within that cultural context can improve their recovery performance. To achieve this objective, the research in this thesis also aims to develop and test a scale that measures service recovery. The latter involves determining the variables considered important by customers when evaluating the way banks handle their complaints, in addition to determining the level of importance of each of the relevant dimensions related to service recovery.

As a secondary goal, this investigation aims to determine the influence of switching barriers on service recovery evaluation. This will allow researchers to determine if some competitive characteristics (e.g. number of alternatives available, switching costs, etc.) of the industry under study affect service recovery evaluation. To achieve this goal a scale that measures switching barriers will be developed and tested. In addition, the presence of switching barriers in the retail banking industry in Chile will be determined.

To fulfill these goals two research methods were implemented: qualitative focused interviews and surveys. The qualitative focused interviews set out to identify the variables or dimensions that are important to retail banking customers when evaluating service recovery efforts. The surveys were used to purify the scales that measure both service recovery and switching barriers and to answer the research questions.

1.5 NEED FOR AND SIGNIFICANCE OF THE RESEARCH

Service recovery planning would benefit if it was grounded in research-based knowledge so as to avoid the harmful impact of service failure (Keaveney, 1995). In order to make rational decisions aimed at improving their recovery strategies and processes, businesses have to know which elements of the complaint response customers consider to be important (Stauss, 2002). It then becomes essential for businesses to understand the construct of complaint satisfaction as well as to find out what customers expect once they have complained, which aspects of the business' response they evaluate as better than others and which of these evaluated aspects influence their repurchase (Stauss, 2002). Stauss (2002) also argues that there is not

much information regarding the dimensional structure of complaint satisfaction and the linkage between those dimensions and repurchase behavior.

Retaining customers is one of the most important goals for businesses because it affects their bottom line positively and allows the business to strengthen relationships with the customer and enhance the customer's loyalty to the business (Ennew and Shoefer, 2004). Poor quality client relationships can lead to the demise of a business because it is very expensive to continually strive to find new customers. Henry (2006) supports this concept by saying that "repeat business is the best business, as the revenue it produces is classified as maintainable fees, which is the basis of valuation of many financial services businesses".

Concerning the particular situation in Chile, Boshoff and Leong (1998) assert that managers of service businesses in countries such as those which are signatories to the Uruguay Round of GATT agreement, may feel the uncomfortable heat of increased competition as protectionist trade practices are systematically removed. On the other hand, this new and more competitive economic situation is likely to re-establish customer retention as a strategic marketing objective. To retain customers, banks should keep their customers satisfied and they should be ready to respond to complaints when service failures happen. This would increase the probability of these customers becoming loyal to the business.

As mentioned earlier, there is a lack of information related to service recovery for Chile, and information gathered in countries with a different cultural and socio-economic background might not represent the way Chilean customers behave (Menguc, 1996; Spreng and Chiou, 2002; Yavas et al., 2003). Hence, it is important to explore the implicit expectations held by Chileans for different service recovery dimensions and to determine the most important service recovery dimensions for Chilean retail banking customers when evaluating bank service recovery efforts. It is also important to determine customer evaluation of the way banks are currently handling complaints as this could lead to detection of areas in which banks are showing a very good or very poor performance. This information allows businesses from Chile to make sound, less risky decisions regarding the design of mechanisms for handling complaints. The information that was gathered in this investigation will allow Chilean banks to design more effective mechanisms for handling complaints, because they can learn which variables to focus on, leading to a more efficient allocation of business resources.

In terms of the relationship between service recovery and switching barriers, this is critical to the management of service delivery and product development in businesses that compete on the basis of service provision. This is due to the fact that customers in an increasingly globalized marketplace are constantly assessing their options as to the best service providers for their service needs. Hence, if banks want to develop long-lasting relationships with their customers, it is important to understand why dissatisfied customers do not switch to other banks and how the presence of switching barriers affects the evaluation of a bank's service recovery effort (Yanamandram and White, 2006). If businesses know which dimensions are of importance to customers wanting to switch to competitors they can tailor their product to respond more specifically to customer needs, particularly after a service failure. Responding appropriately to customer needs after a service failure may mean that banks are likely to retain more customers and build brand loyalty amongst existing customers.

1.6 OVERVIEW OF THE THESIS

The thesis has seven chapters, each of them with a particular goal. The first chapter introduces the research, and defines and justifies its objectives. Chapter Two presents the literature review, discussing the main concepts that are used in this investigation and how the research problem and its objectives arise out of existing research on the topic. Chapter Three shows an overall view of the methodology that was used in this investigation and then details information on all the methodological aspects involved in each phase of the research. Chapter Four reports the main results of the qualitative focused interviews. Chapter Five mainly deals with the survey method utilized in the investigation by discussing the questionnaire design and the purification of the scales that measured service recovery and switching barriers. Chapter Five also shows the conceptual model that was used in the main survey, explaining the relationship between the variables included in the research, the way they were operationalized, and presents several research propositions. Chapter Six presents the findings of the main survey, which answer the research questions and propositions put forward in this investigation. The final chapter discusses the main conclusions of the investigation, their managerial and theoretical implications and the limitations of the present research.

1.7 SUMMARY

Chapter One has provided an introduction to the topic under investigation. Firstly, the research problem was discussed and special attention was given to the negative effects produced from service failure, such as lower levels of customer satisfaction and perceptions of value for money, an increase in the customer's negative word of mouth and decreased customer repurchase intention. Service recovery, that is the company's response to customer complaints, is a means to reduce the negative effect of service failures. Despite the importance of managing complaints effectively, there is no consensus on how companies should respond to complaints and there is a lack of information on service recovery that deals with companies working in specific cultural contexts, such as that of South America and Chile in particular. In terms of switching barriers, companies may use them to retain customers, but their effect on service recovery evaluation is not known.

Secondly, the reasons for choosing Chile and the retail banking industry were discussed. Chile was selected because of the constant increase in internal customer demand as a consequence of fast economic growth. Additionally, the Chilean retail banking industry has grown faster than other areas of the economy and has become one of the most developed and sophisticated among South American countries. The retail banking industry was also chosen because it is considered the ideal environment to test a service recovery model.

Thirdly, the research objectives were established. The main goal of this research was to evaluate service recovery in Chile and the secondary goal was to determine the influence of switching barriers on service recovery evaluation. This is so customer service managers in the retail banking industry in Chile can access crucial marketing management information in order to improve relationships with customers.

Finally, the need for the research was established, showing the importance of obtaining valid information regarding service recovery in the Chilean context and also for determining the relationship between switching barriers and service recovery evaluation.

The next chapter, Chapter Two, will discuss the literature review including all the concepts that are relevant for this investigation, such as, service quality, service failure, customer complaining behavior and service recovery. Chapter Two also discusses the research questions that arise from gaps in the existing literature.

CHAPTER 2: LITERATURE REVIEW AND RESEARCH QUESTIONS

2.1 INTRODUCTION

As discussed in Chapter One, the two central research aims of this thesis are to determine the service recovery evaluation in the Chilean retail banking industry, and to determine the relationship of switching barriers on the likelihood that customers will be satisfied with the complaint handling procedures within the industry. In this chapter, the key concepts will be discussed in terms of how they are related to the main aim of the thesis. These concepts are explained and discussed as they arise from the gaps in the existing literature on the topic. First, service typology and service quality are discussed in order to understand what a service entails and its relationship to service quality. Then service failure and customer complaining behaviour are elaborated upon to show the impact of a service failure on the financial performance of a business and also to discuss the behaviour of customers when a service failure happens. Finally, the two main concepts of this investigation are discussed, which are service recovery and switching barriers. Their definitions, their impact on the financial performance of businesses and the dimensions that have been used in past research are presented and discussed.

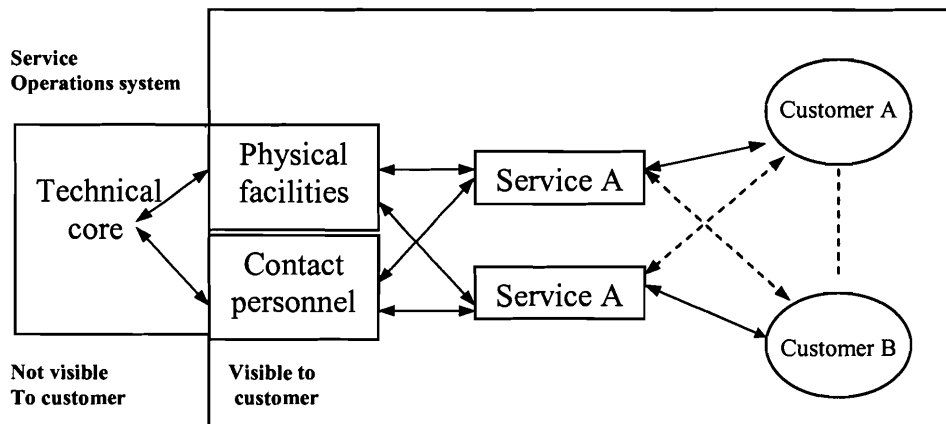
2.2 SERVICE TYPOLOGY AND SERVICE QUALITY

Lovelock and Patterson et al. (2004:5) define a service as a two fold process, comprising of any act or performance that one can offer to another and that is essentially intangible and does not result in the ownership of anything. The production of a service may or may not be tied to a physical product. Similarly, Gabbott (1998:25) argues that the distinction between services and products is that the latter refers dominantly to physical goods, while services are intangible.

Figure 2.1 shows the service as a system that consists of service operations and service delivery. Lovelock et al. (2004:40) mentioned that in service operations, inputs are processed and the elements of the service product are created, while in the service delivery, services are delivered to the customer. To process inputs businesses use factors that are visible and invisible to customers. The visible components of the service operation system can be divided into personnel and physical facilities, while the invisible factors relate to the technical core of the business. With regard to the service

delivery systems, Lovelock et al. (2004:41) suggest that this refers to where, when, and how the service is delivered to customers. This system not only includes the physical facilities and contact personnel, but also the potential interaction among customers when receiving a service from a business.

Figure 2.1 The Service as a System (Lovelock et al., 2004:41)



Providing a high quality service is an important antecedent of customer assessments of value, so many marketing practitioners often seek to differentiate their service offering based upon the service quality they can deliver (Imrie et al., 2002). It is logical to think that businesses want to deliver a high quality service in order to have satisfied customers in the short run and loyal customers in the long run. Agarwal et al. (2005) mentioned that service businesses are aware that by providing high quality services, they can gain significant strategic advantages, such as, customer loyalty, responsiveness to demand, market share growth, and greater productivity. Agarwal et al. (2005) also state that to successfully leverage service quality as a competitive edge, businesses first need to identify what customers perceive as service quality.

Several studies have been done to understand the concept of service quality. One of the most popular studies was SERVQUAL, which was developed by Parasuraman et al. (1988), in which five distinct components of service quality were identified:

- Assurance,
- Empathy,
- Reliability,
- Responsiveness and
- Tangibles.

SERVQUAL supposes that industries must consider these five dimensions when evaluating service quality, but there is still no consensus on that issue. Some researchers have criticised the methodology used by Parasurman et al. (1988) in obtaining those five dimensions. For instance, Newman (2001), Cronin and Taylor (1994), Kemal (1994) among others, have focused their criticism on the psychometric problems arising through the use of expectations and performance to measure service quality. Despite this, however, the concept behind SERVQUAL continues to be used in several different studies in various countries. The use of the five dimensions is further complicated by the fact that in many cases researchers do not use the 22 scale items contained within the SERVQUAL instrument. In fact, some researchers have been using modified versions of the questionnaire to adapt it to particular contexts (Asubonteng et al., 1996; Bower et al., 1994; Carman, 1990; Cronin and Taylor, 1992). The application of SERVQUAL in the marketing context is questionable on the grounds of the reliability and validity of the instrument being used, as well as the contextual adaptability of the instrument.

The impact of culture on the perception of service quality is another issue that has been addressed by several researchers who have argued that cultural differences should be taken into account when defining service quality dimensions (Furrer et al., 2000; Malhotra et al., 2004; Witkowski and Wolfinbarger, 2000). For example, Malhotra et al. (2004) contend that economic and socio-cultural differences affect customer perceptions of service quality. Agarwal et al. (2005) determined that there are systematic differences between developed and developing countries in terms of service quality perception, hence a common marketing strategy for these two demographics may not be appropriate. Furthermore, Agarwal et al. (2005) recommended the understanding of environmental differences between countries that are dissimilar in their level of economic development and cultural value systems.

Regarding South American banking customers, Stevenson and Plath (2002) showed that Hispanic customers (e.g. Mexican, Central and South American, and Caribbean) have different financial service consumption patterns to non-Hispanic “white” customers, and suggest that financial marketers should tailor their marketing efforts to meet the specific needs of the Hispanic community. Other researchers make a stronger case that there are important and substantive differences between various Hispanic sub-cultures in terms of their service consumption needs (O’Guinn and Meyer, 1984; Paulin, 1998). These findings are in contradiction to the conclusions of other

researchers who have found no statistical difference in culture values across Hispanic subgroups (Loza, 1988; Valencia, 1989). Nevertheless, treating Hispanic customers as one group or treating them as sub-groups for comparative purposes is not the key issue. What is important is that Hispanic customers have shown different attitudes, values and consumption preferences that are quite different from non-Hispanic “white” customers (Pitts, 1990; Valencia, 1989). Valencia (1989) mentioned that Hispanic customers have different value orientations, which are significant in explaining the buyer behaviour patterns observed across Hispanic households. Hence a marketing approach unique to the needs of Hispanic customers is required to reach this group. Such uniqueness in terms of the business context of the thesis implies the need for information relative to the service quality dimensions that Hispanic customers expect from their banks.

In terms of the banking industry, high quality service is important due to increasing competition (Avkiran, 1999). Past studies have shown that customers considered several criteria when choosing a bank, such as, size, location, ease of transaction, professionalism of bank personnel, communication and credibility (Avkiran, 1999; Devlin and Ennew, 2005; McKechnies, 1992). Lymperopoulos et al. (2006) claimed that bank service quality dimensions, such as, staff conduct, reliability and responsiveness and 24 hour access to network and communication, were those that had a greater impact on customer bank selection. They also mentioned that, nowadays, customer selection of banks is more complicated but also more important to clarify due to:

- a) the changing patterns of customer behaviour,
- b) the requirement of a great service and
- c) the need for banks to build long-lasting relationships with their customers.

Independent of the number of dimensions that service quality has, if a customer feels that the business did not deliver the service they were promised, the business faces a service failure. This concept will be further analysed in the next section.

2.3 SERVICE FAILURE

A service delivery system fails when it cannot deliver a service as promised (Ahmad, 2002) and it is logical to think that every business wants to provide a high quality service, one that, at the very least, always meets all customer expectations. Barlow and Moller (1996) claimed that it would be a wonderful world if businesses could produce services and products that always worked or were so reliable they never provoked

complaints. However, Ennew and Shoefer (2003) argued that few businesses can guarantee to deliver perfect service every time, and so, not all customers will be satisfied all of the time. Bowen and Johnston (1999) established that zero defects are an unrealistic goal in service delivery, so businesses must have recovery strategies in place. Lewis and McCann (2004) suggest that service failures are inevitable and occur in both the process and the outcome of the service delivery. Similarly, Goodwin and Ross (1990) argue that every business offering products or services to the public is likely to receive complaints at some time. Brown et al. (1996) mentioned that the nature of service products themselves increases the likelihood of errors, or service failures and, therefore necessitates recovery strategies (Brown et al., 1996).

Service failures lead to customer dissatisfaction and dissatisfied customers may have several negative reactions (Halstead and Droge, 1991). First, customers may engage in negative word of mouth, telling their relatives, friends and other people about their problem. Chakrapani (1998) reports that disgruntled customers tell twice as many people about bad experiences as satisfied customers do about positive experiences. Second, dissatisfied customers may stop purchasing the brand and third dissatisfied customers may complain.

Chakrapani's (1998:7-8) research reveals that the nondelivery of the promised service quality may lead to an increase in a business' costs, a decrease in profits and also shows that some of these costs are not always visible. The visible and invisible costs are as follows (Chakrapani, 1998:7-8):

1) Visible Costs

- The cost of handling irate customers. Staff with appropriate skills will have to be hired to handle complaints. They will have to be trained and equipped and must spend time looking for a solution to customer problems.
- The cost of losing customers. A satisfied customer will potentially stay with the business for a long time; hence losing a customer may mean a loss of several years' worth of business.
- The cost of reversing the mistakes caused by the service failure. The business will have to spend resources reversing the mistake and all the negative consequences caused by the mistake, which will be very costly.

2) Invisible Costs

- The cost of countering negative publicity. Dissatisfied customers will talk to several people about their experience, reinforcing negative word of mouth relating to the service.
- The cost of replacing lost customers. The cost of retaining a current customer is five times lower than the cost of attracting a new one.
- Higher marketing costs. Low quality services will not get free marketing, such as positive word of mouth, so the business will have to invest more resources to ensure profitability.

Figure 2.2 shows the process of service quality and recovery along with their potential impact on customer intent (e.g. repurchase, loyalty) and corporate image (e.g. word of mouth) as proposed by Andreassen (2001). The service quality process starts with the definition of service quality dimensions, which in Figure 2.2 are the SERVQUAL dimensions (e.g. assurance, empathy, reliability, responsiveness and tangibles). Upon evaluation of these service recovery dimensions, customers may end up either satisfied or dissatisfied. Customer satisfaction will lead to a positive impact on customer intent and corporate image, which means that satisfied customers will repeat business and engage in positive word of mouth. On the other hand, once a customer is dissatisfied, the customer may or may not complain. If customers do not complain, it is very likely that they will stop doing business with the company and engage in negative word of mouth. If customers complain, the business will have the possibility to put in place mechanisms for handling complaints (in Figure 2.2 these are called service recovery efforts) and customers will positively or negatively evaluate those service recovery efforts. The level of satisfaction or dissatisfaction regarding service recovery will have a positive or negative impact on customer intent with respect to remaining loyal, continuing to do business with the company and on corporate image. With regard to those effects, the sign '+', shown in Figure 2.2, reflects positive outcomes and '-' symbolizes negative ones. At the same time, the relevant path for service recovery evaluation is highlighted as follows:

Perception of Service Quality ⇨ *Dissatisfaction* ⇨ *Complaining* ⇨ *Perception of Service Recovery Quality* ⇨ *Satisfaction/Dissatisfaction*.

Figure 2.2 Service Quality and Recovery Processes (Andreassen, 2001)

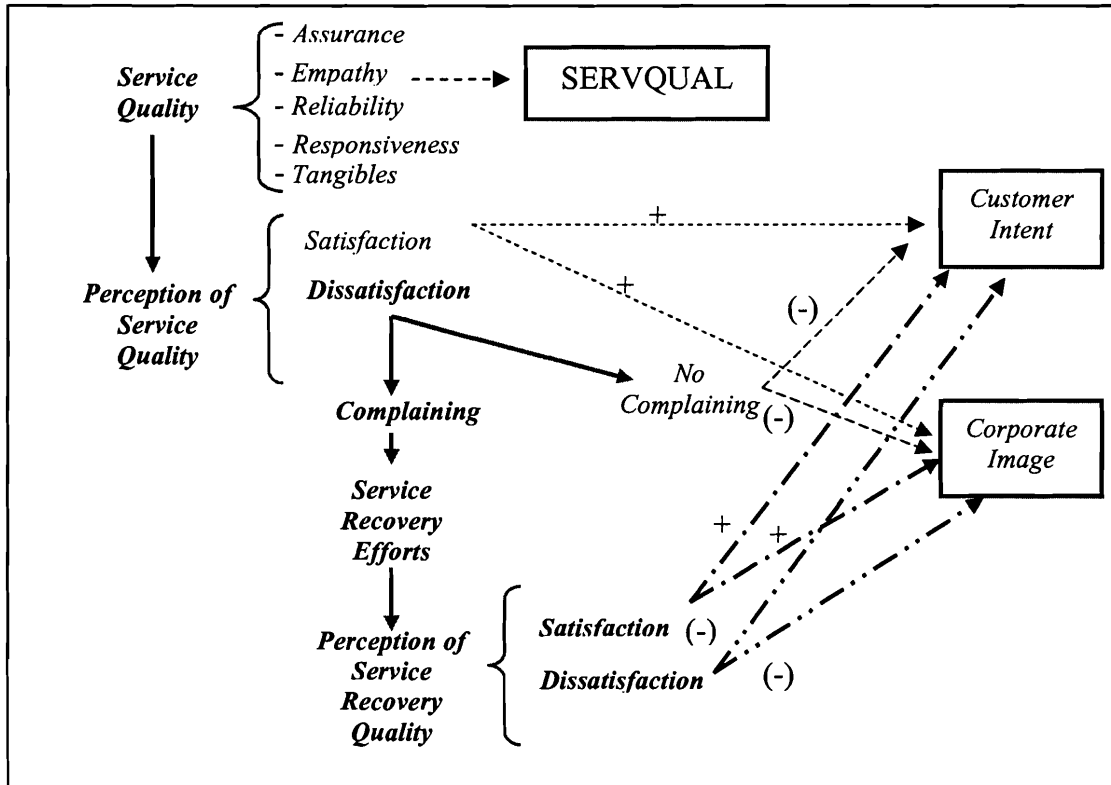


Figure 2.2 demonstrates that when customers are dissatisfied with the service they have received from their supplier, they may or may not complain to the supplier. In the next section customer complaining behaviour will be further discussed in order to understand why some customers complain and others do not.

2.4 CUSTOMER COMPLAINING BEHAVIOUR

In an ideal world, when customers are dissatisfied they immediately speak up so businesses have the opportunity to respond promptly by improving the quality of their services or products.

One aspect in which there is consensus among researchers is the fact that not all customers complain when they are dissatisfied, and even worse, only a small percentage of unhappy customers do engage in some form of complaint action, hence businesses might not know that there has been a service failure (Andreassen, 2001; Chakrapani, 1998; Peppers and Rogers, 2004). Andreassen (2001) specifically mentioned that the number of customers who complain is lower than those who do not complain. According to Goodman and O'Brian et al. (2000), irrespective of the industry, approximately 50 to 80% of dissatisfied customers do not complain. Chakrapani (1998:12) suggested that only 4% of discontented customers complain.

Based on these statistics, it would not be surprising if businesses do not have a high number of complaints to handle (Zairi, 2000), which does not necessarily mean that these companies have low levels of service failures. According to Barlow and Moller (1996:6), many customers might be dissatisfied with service delivery, but they do not express their dissatisfaction to the company. They go on to say that businesses should encourage customers to speak up every time they are dissatisfied because this may provide an opportunity for businesses to build customer loyalty.

Pepper and Rogers (2004:185) reported that 50% of individual customers and 25% of business customers who have had a problem never complain. They also argue that, from a business point of view, each unvoiced complaint is a missed opportunity to increase loyalty by 50% if it is well handled. On the other hand, Pepper and Roger (2004:185) mentioned that if customers have to complain twice to get a solution to their problem, satisfaction and loyalty decrease by 10%.

From reading the research of various authors, there appears to be at least two general reasons why many customers do not complain. Firstly, customers may not complain because they do not have a positive attitude toward complaining (Barlow and Moller, 1996; Davidow and Dacin, 1997; Keng et al., 1995) and secondly, because they think companies do not have a positive attitude toward solving their complaints (Lau and Ng, 2001; Richins and Verhage, 1985).

Regarding customer attitude toward complaining, Barlow and Moller (1996:43) presented the results of a study done by the Case Western Reserve University, in which dissatisfied customers were interviewed and they fell into four clusters: voicers (37%), passives (14%), irates (21%), and activists (28%). Voicers will tell the business that something is wrong; passives will not say anything and will remain loyal to their suppliers at least for a while; irates will not say a word to the business, but they will engage in negative word of mouth; and activists look for more than redress, they look for revenge. Research such as this allows businesses to design mechanisms for handling complaints, which may have the effect of increasing the number of customers who complain, reducing the effects of negative word of mouth and increasing customer loyalty.

Regarding the variables that influence customer complaining behaviour, several studies have shown that there is a relationship between complaining and demographic variables, product characteristics and psychographic variables (e.g. customer personality and attitude toward businesses).

Demographic variables have been the subject of attention in past research and different conclusions have been obtained by different researchers. For instance, Keng et al. (1995) and Heung and Lam (2003) concluded that female customers are more inclined to complain, while Manikas and Shea's (1997) findings show totally the opposite. Relative to the role of education, level of income and socio-economic status, research has shown that customers with higher levels of education, income and socio-economic status tend to complain more than customers with lower levels of these factors (Bearden and Mason, 1984; Day and Lando, 1977; Heug and Lam, 2003; Jacoby and Jaccard, 1981; Morganosky and Buckley, 1986). In terms of the present investigation, it will be interesting to see how demographic variables influence complaint behaviour in the Chilean retail banking industry. In relation to gender, the study looked at determining if a significant difference exists in the evaluation of bank service recovery efforts given by men and women. To do that the questionnaire included questions that specify the gender of respondents.

With regard to the relationship between product characteristics and complaining behaviour, Day and Lando (1977) and Keng et al. (1995) concluded that is more likely for customers to complain if the product is not performing as promised and this situation can have a negative impact on the image of the business. It was also demonstrated that there is a direct relationship between price and complaining behaviour, meaning that the customer will engage in complaining behaviour if the product they are dealing with is considered to be expensive. In relation to the present investigation, focus was on retail banking customers who had at least one product with their banks (cheque account, credit card, etc), which allowed the researcher to include service recovery experiences related to different types of products and to determine if significant differences existed in the customer evaluation of the way banks handled complaints relative to these different types of products.

In relation to psychographic factors, such as personality and attitude, Davidow and Dacin (1997) concluded that these are the major forces behind complaint behaviour. Valenzuela et al. (2005) showed that customers who do not complain have a negative attitude toward complaining in that, they find it distasteful and they regard people who complain as not having anything else to do. Interestingly, other researchers have concluded that customers who do complain are more socially responsible. They complain because it is the right thing to do and they are willing to take risks such as that of embarrassment when complaining (Chakrapani, 1998; Fornell and Westbrook, 1979;

Keng et al., 1995; Lau and Ng, 2001; Valenzuela et al., 2005). Such research findings show that certain values and attitudes that customers hold can determine whether they will complain or not. Due to the plethora of different ways in which personality and values can be measured it was deemed to be beyond the scope of this research to explore their relationship to complaining behaviour.

Concerning the issue of customer attitude toward businesses, several researchers have concluded that there is a positive relationship between business responsiveness and complaining behaviour (Keng et al., 1995; Lau and Ng, 2001; Richins and Verhage, 1985). Sometimes customers are discouraged from speaking up by negative complaint handling procedures (Barlow and Moller, 1996:59-61; Chakrapani, 1998:12), for example;

- they are offered just simple apologies and nothing more,
- they experience rejection (verbal or non verbal),
- they are given promises that are not acted upon,
- they receive no response at all,
- they are treated rudely,
- they are passed on to someone else rather than having their complaint dealt with efficiently,
- they encounter employees who are avoiding personal responsibility for the complaint, or
- they experience 'customer interviews' that turn into interrogations

Valenzuela et al. (2005) reported that non-complaining customers had a lower opinion of a business' attitude toward solving their complaints, compared to complaining customers. Considering this last statement, it may be important for companies to analyse what customers expect when complaining because, armed with such information, businesses could design mechanisms for handling complaints effectively. This could potentially lead to a positive change in the perception customers have regarding a business' attitude with respect to complaining and an increase in the number of customers who complain when dissatisfied.

Taking into account the potential gains to businesses of strengthening the bonds between themselves and their customer through effective complaint handling, the main aim of the investigation was to study service recovery dimensions from the perspective of the customer. The reasons for the specific context of a South American country, that is Chile, have been discussed in terms of the uniqueness of the Hispanic culture. The

service recovery concept and other related issues will now be discussed in accordance with how they are related to the main aim of the thesis.

2.5 SERVICE RECOVERY

In the following paragraphs the service recovery concept will be explained in more detail. First a definition of service recovery will be given, and then the importance of concentrating on this issue will be discussed. After that, the focus of attention will be on service recovery evaluation and the dimensions that are considered important for customers when evaluating service recovery efforts.

2.5.1 Service Recovery Definition

Several authors have defined service recovery. Kelly and Davis (1994) determined it as the response a provider makes to a service failure. For Andreassen (2001), service recovery consists of all actions a business may take to rectify a service failure. Bowen and Johnston (1999) see service recovery as the second opportunity a business has to make it right for a customer, as the first time the business failed to do so in a proper way. In this sense, the goal of service recovery should be seen as the retention of existing customers and the building of a stronger bond with the customer, as opposed to attracting new ones (Andreassen, 2001), although the latter would be considered as a bonus in the process.

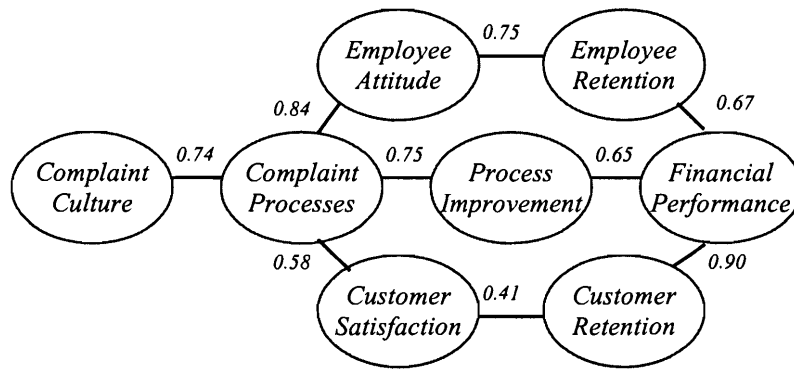
2.5.2 Importance of Service Recovery Efforts

According to Barlow and Moller (1996:10), a complaint is a 'gift' because it gives businesses an opportunity to find out what customer problems are, so they can be resolved. In solving customers' problems to their satisfaction, businesses will encourage customers to come back and to continue to use the services and to buy the products offered.

A good complaint culture process may well lead to improved financial performance not only by satisfying and retaining employees and customers, but also by using information from complaints to improve both operational and organizational-wide systems (Johnston, 2001). Figure 2.3 shows the indirect relationship between complaint culture and financial performance and the three potential ways to link these two variables:

- a) Complaint culture, employee attitude, employee retention and financial performance,
- b) Complaint culture, complaint processes, process improvement and financial performance and
- c) Complaint culture, customer satisfaction, customer retention and financial performance.

Figure 2.3 The Relationship Between Complaint culture and Financial Performance



Source: Johnston (2001)

In terms of employee attitude, Stauss and Seidel (2004:1) established that employees get annoyed when they receive complaints because they will have to allocate time to handling them. However, ideally from a marketing perspective, complaints have to be looked at from a constructive, positive and professional perspective (Zairi, 2000). Looking at a business' internal outcomes, service recovery enhances frontline staff's job satisfaction and there is a relationship between service recovery performance and staff turnover (Boshoff and Allen, 2000). Johnston (2001) mentioned also that good complaint processes should result in employees feeling in greater control of their work situation thereby reducing their stress levels. It was also established that there is a high correlation between complaint processes, employee attitude and customer satisfaction.

In terms of process improvement, Johnston (1995) reported that complaints should lead to the identification of problems and actions to ensure that such failures do not happen again. Loudon and Della Bitta (1993: 583) found that complaints are actually opportunities and that by handling them effectively, brand loyalty increases. For Stauss and Schoeler (2004) complaint handling has a significant impact on customer retention and the beneficial usage of information for service quality improvements. Although service recovery can increase costs, it can also provide the

information needed to redesign systems that more closely cater to customer needs. Incidents of service failure have the potential for providing businesses with valuable information which can be used to fix the root causes of failures and help to improve service processes (Brown et al., 1996). Peppers and Rogers (2004:186) stated that service recovery provides a “relationship adjustment opportunity”, the possibility for a business to expand its scope of knowledge about the customer, or a means to get data about an enterprise’s products and services. The service recovery efforts should play a role, both in creating immediate customer satisfaction and in improving future service design and delivery (Lewis and McCann, 2004). For this to happen, a clear service recovery strategy is essential in order to minimize the negative effects of the initial failure and to maximize the positive outcomes of the recovery process (Ennew and Shoefer, 2003).

In terms of customer satisfaction, an investigation done by ProCalidad (2006) showed the effects of service failures and effective complaint management in Chile (see Table 2.1). The study concluded that customer levels of satisfaction and perceptions of value for money are higher when there is no service failure. If service failures occur, customers who do not complain show low levels of satisfaction (only 5%) and very low scores on the value for money scale (-24%)². If the customer complains, the level of satisfaction and the perceived value for money vary depending upon the type of response the company gives to the complaint. If the complaint is not solved, customers show very low levels of satisfaction (-25%) and perceived value for money (-35%). These percentages are even lower than those registered by customers who do not complain showing the necessity for companies to know what customers expect from their suppliers when complaining. In terms of word of mouth and customer repurchase, results are very similar: customers show more positive behaviour in those instances where there is no service failure and if a service failure occurs, customers behave more positively when the complaint is handled effectively.

² The study used a scale that went from 1 to 7 and the percentage was calculated by deducting the total percentage of responses for 6 and 7 from the total percentage of responses that went from 1 to 4.

Table 2.1 Effects of Service Failures and Complaint Management

	No Service Failure	Service Failure			
		Total	No Complaint	Complaint	
				No solution to the Complaint	Solution to the Complaint
Level of Satisfaction	74%	2%	5%	-25%	34%
Value	54%	-15%	-24%	-35%	12%
Positive WOM	69%	31%	NN	NN	NN
Negative WOM	3.5%	NN	14%	28%	11%
High Repurchase	79%	47%	NN	NN	NN
Low Repurchase/stay	14%	NN	40%	55%	28%

Source: Customer Satisfaction Index (ProCalidad, 2006)

If mistakes and failures are an inevitable part of service, the recovery of service failures can provide a major opportunity for businesses to create very satisfied customers (Johnston 1995). Effective service recovery will enhance the probability that aggrieved customers are returned to a state of satisfaction and are likely to maintain the business relationship which is obviously beneficial (Boshoff and Allen, 2000). For instance, Ahmad (2002) reported that when customers have bad experiences with online shops they do not use them in the future, but customers who felt their problems were resolved to their satisfaction tended to continue to use them. Complaining customers who have received successful service recovery have a more positive perception of the supplier and a higher repurchase intention than dissatisfied non-complaining customers (Andreassen, 2001). Andreassen (2001) also established that customer delight with service recovery will create positive word of mouth. Similarly, Barlow and Moller (1996:30) mentioned that an effective complaint handling mechanism can be a powerful source of positive word of mouth, and that the more dissatisfied customers become, the more likely they are to use word of mouth to express their displeasure. Valenzuela et al. (2005; 2006) found that service recovery efforts influence customers repurchase behaviour and that two service recovery components: compensation and employee

behaviour, have a positive and direct impact on customer trust and also an indirect influence on relationship commitment and loyalty.

With the importance of service recovery now established, the ways in which businesses can evaluate their service recovery efforts will be discussed.

2.5.3 Service Recovery Evaluation

Complaint satisfaction refers to the satisfaction of a complainant with a business' response to the complaint (Stauss, 2002). Several studies have shown different aspects or dimensions that need to be considered when evaluating service recovery efforts and when trying to deliver complaint satisfaction to customers (Boshoff, 1999; Davidow, 2000; Estelami, 2000; Tax and Brown, 1998).

Numerous empirical research studies have applied and demonstrated the importance of service recovery efforts related to perceived justice or fairness when examining consumer responses to complaints (Blodgett et al., 1997; Hui and Au, 2001; Maxham III and Netmeyer, 2003; Tax and Brown, 1998). Other studies show that customers evaluate the fairness of service recovery based on three different forms of perceived justice or fairness: procedural fairness, interactional fairness and distributive fairness (Blodgett et al., 1997; Goodwin and Ross, 1990, 1992; Smith and Bolton, 1998; Tax and Brown, 1998). Davidow (2000) defines procedural fairness as the perception of fairness of a business' visible policy and procedures. That is, those with which the customer has direct knowledge or experience. Interactional fairness is the customer's perception of the fairness of the organization's representative's attitude and personal interaction with the customer, and distributive fairness is the customer's perception of the fairness of the outcome of the business' response.

Although, most researchers have used up to three service recovery dimensions in their studies, they have included dimensions of service recovery that are related to different types of perceived fairness. For instance, several researchers considered three dimensions in their studies, one related to procedural fairness, a second to interactional fairness and a third one to distributive fairness (Blodgett et al., 1997; Blodgett et al, 1995; Boshoff and Leong, 1998; Boshoff and Staude, 2003; Conlon and Murray, 1996; Estelami, 2000; Martin and Smart, 1994; Sparks and McColl-Kennedy, 1998). Other researchers considered two service recovery dimensions belonging to two different categories of perceived fairness (Baer and Donna, 1994; Bitner et., 1990; Blodgett and

Tax, 1993; Clark et al., 1992; Davidow and Leigh, 1998; Fornell and Wernerfelt, 1988; Hocutt et al., 1997; Sparks and Bradley, 1997).

Therefore, existing literature points to the fact that customers consider three types of fairness when evaluating service recovery efforts. Considering the importance of the three types of perceived fairness to customers' perceptions of effective service recovery, it seems sensible that research undertaken on service recovery evaluation in a specific cultural context, such as the Chilean one, should consider at least one service recovery dimension related to each perceived fairness dimension: the procedural, interactional and distributive. Along these lines, Hui and Au (2001) mentioned that perceived fairness varies depending upon the cultural context under study, hence the current investigation included several service recovery dimensions that represent the three types of perceived fairness.

As discussed earlier, each of the three types of fairness is related to different service recovery dimensions. Next, the dimensions of service recovery that have been used in past research are discussed. To facilitate their understanding they will be presented with regard to the type of perceived fairness category to which they belong.

Procedural Fairness

As mentioned earlier, procedural fairness is the perception of fairness of the business' visible policies and procedures, that is, those with which the customer has direct knowledge or experience (Davidow, 2000). Nyer (2000) reported that facilitating the process in which dissatisfied customers can express their feelings and opinions increases levels of satisfaction. In this regard, Goodwin and Ross (1990; 1992) reported that "voicing an opinion" had a positive effect on customer satisfaction with complaint handling and they also suggested that customers could experience a greater deal of satisfaction if they had the opportunity to express their feelings and opinions.

In order to obtain detailed information regarding the way customers evaluate the procedural fairness of companies' service recovery efforts, Tax and Brown (1998) divided this type of fairness into four sub-sections: accessibility/facilitation, process control, decision control, and flexibility. Accessibility/facilitation corresponds to the ease of engaging a process, process control to the freedom to communicate views on a decision process, decision control to the extent to which a person is free to accept or reject a decision outcome and flexibility to the adaptability of procedures to reflect individual circumstances (Tax et al, 1998). Similarly, Davidow (2000) used the service

recovery dimension of facilitation, which includes the policies, procedures, and structure that a business has in place to support customers when complaining. Davidow (2003) mentioned that eight out of nine of the studies related to these dimensions have shown positive effects, and that the remaining one presented no effect of these dimensions on post-complaint customer behaviour. Interestingly, the latter is a study done by the same author, Davidow (2000), who found that facilitation was not a significant factor in post-complaint customer behaviour.

Considering the importance of these service recovery dimensions shown in research done in the U.S.A. and Europe, the present investigation aimed at determining if they are important to Chilean customers. The information will allow Chilean banks to determine if accessibility/facilitation, process control, decision control, and flexibility are relevant to Chilean customers when evaluating service recovery efforts, or if other service recovery dimensions should be included as part of procedural fairness when designing mechanisms for handling complaints in the Chilean context.

Another aspect considered within the perceived fairness dimension of procedural fairness is 'time'. Time is the way in which customers perceived speed pertaining to the way their complaints were handled by businesses (Davidow, 2000). Several researchers have included this dimension in their studies (Davidow, 2000; Estelami, 2000; Tax and Brown, 1998). Results have not been conclusive because some researchers have found some impact of timeliness on service recovery evaluation and customer post-complaint behavior, and others have not. Davidow (2003) reported that of 18 studies dealing with response speed, nine reported a positive relationship between perceived response speed and post-complaint customer behaviour, three reported no relationship at all and six reported mixed results. Davidow (2000), for instance, showed that timeliness had a positive effect on customer satisfaction and word of mouth valance (positive or negative word of mouth), but no effect on repurchase intentions or the likelihood of engaging in word of mouth. Estelami (2000) found that speed had a significant effect on delight with complaint handling, but no effect on dissatisfaction with complaint handling. Similarly, Clark et al. (1992) found that a quick response improves a business' image but only if redress (e.g. the benefits or response outcomes that a customer receives from their supplier due to the complaint (Davidow, 2000) is included. On the other hand, Boshoff (1997; 1999) concluded that speed is not a dominant factor in terms of customer evaluation of service recovery, which is similar to the conclusion obtained by other researchers (Morris, 1988; Valenzuela et al., 2006; Valenzuela et al., 2005), who

reported that the speed of a response does not appear to influence customer satisfaction with the response and has no effect on customer post-complaint behaviour. Conversely, Wirtz and Mattila (2004) found that the speed of service recovery, compensation and apology, all have a combined effect on post-recovery satisfaction.

Considering this mix of results, the impact of time on service recovery evaluation should be further studied. The way customers interpret 'time' should also be studied in order to determine the true meaning of this concept because it is possible that past research came to different conclusions because customers might have interpreted the concept of timeliness in different ways. In order to understand how customers interpret the dimension of "time" in terms of service recovery evaluation, an interpretive type of research method is needed to properly ascertain the underlying meaning of time for Chilean customers.

In sum, and based on the analysis of the literature review, at least seven dimensions of service recovery (see Table 2.2) that belong to the 'procedural fairness' factor will be further studied in the current investigation.

Table 2.2 Service Recovery Dimensions Related to Procedural Fairness

- Process Control
- Decision Control
- Accessibility
- Flexibility
- Information/feedback
- Empowerment
- Time

Interactional Fairness

Refers to the interpersonal communication between the business and the customer making a complaint and according to Davidow (2000) it is the single most important dimension. Similarly, Boshoff (1999) showed that communication is one of the most important factors for customers when evaluating service recovery efforts. He also mentioned the importance to businesses of being constantly in touch with their customers in order to inform them about the progress and result of the complaint process.

Goodwin and Ross (1990) found that even if the customer gets a completely positive outcome to a complaint, this might be overshadowed by discontent with the procedures used to arrive at that outcome. Thus, it could be expected that satisfaction with complaint resolution might be related to the procedures used to settle the complaint. Goodwin and Ross (1990) also said that customers might believe that a business' response to a complaint is unfair when it is accompanied by rudeness. Similar results were obtained by Estelami (2000), who reported that employee behaviour has a significant impact on satisfaction, greater even than the response outcomes that a customer receives from their supplier due to the complaint. Regarding more specific aspects, Morris (1988) showed that the tone of the response received from employees is very important. Valenzuela et al. (2006; 2005) found that positive employee behaviour has an affirmative effect on customer post-complaint behaviour, although its impact is much smaller than that of monetary and non-monetary compensation.

Tax and Brown (1998) considered several service recovery dimensions related to the way employees should behave when handling complaints. These dimensions are: empowerment, honesty, politeness, effort, empathy, communication skills, tangibles and explanation. Empowerment corresponds to the employee's power to make decisions regarding complaints; honesty is the perceived veracity of information provided; politeness is related to whether employees are well-mannered and display courteous behavior; effort is the amount of positive energy put into resolving a problem; empathy is the provision of caring and individual attention; communication skills are the employees ability to communicate with their customers; tangibles the way employees dress and the job environment itself; and explanation is the provision of a reason for a failure (Tax et al, 1998).

Considering the importance of the interaction between the customer and the company during the complaint process, it is important in this thesis to determine what Chilean customers expect from bank employees. Relevant questions should be asked, such as, "Is it important for Chilean customers to assess how employees dress or if they are well mannered?" or "Do they consider other aspects more important in service recovery such as honesty, communication skills and empowerment?" Table 2.3 shows a summary of the service recovery dimensions that were obtained from past research and that will be further studied in the current investigation.

Table 2.3 Service Recovery Dimensions Related to Interactional Fairness

- Honesty
- Politeness
- Tangibles
- Communications Skills
- Explanation

Distributive Fairness

In Davidow's (2000) research, he refers to redress as the benefits or response outcomes that a customer receives from their supplier due to the complaint. It could be thought that the essential response outcome to a complaint would be the correction of the problem that originated it. As a matter of fact, Duffy et al. (2006) and Johnston and Fern (1999) stated that banking customers expect the bank to listen to them and to fix the problem. However, several researchers have mentioned that correcting mistakes is not enough for a customer to be satisfied with the way the business handles the complaint, and that the customer expects to be compensated. Estelami (2000) reported that compensation is the single most important factor for customers when evaluating service recovery. Similar results were obtained by Boshoff (1999) and Valenzuela et al. (2005; 2006), who concluded that this service recovery dimension was one of the most important factors for customers. Relative to the effect on customers post-complaint behaviour, Goodwin and Ross (1989) reported that compensation has a positive impact on satisfaction and on repurchase intentions, while Mack et al. (2000) showed an effect of redress on repurchase.

These findings argue in favour of including some type of redress when businesses design mechanisms for handling complaints. Conlon and Murray (1996) noted that by doing so, customers will be much more willing to do business again with the company in the future. Regarding the level of compensation, Boshoff (1997) concluded that the higher the compensation the more customers were satisfied. However, Boshoff's (1997) finding does not mean that businesses must give very high levels of compensation to their customers because other researchers have shown that over generosity might have a negative effect on customer evaluations (Estelami and De Maeyer, 2002). If customers feel that the outcome of their complaint was due to mere luck or coincidence, then all resources invested by the business would be lost (Goodwin and Ross, 1990).

Conversely, Wirtz and Mattila (2004) reported that compensation failed to lessen dissatisfaction with a poor recovery process and also that compensation alone may not enhance satisfaction when the recovery process is well executed.

Considering the importance of the response outcomes that a customer receives from their supplier due to the complaint, any future research about service recovery should include the dimensions of service recovery for 'correcting/reversing mistakes' and 'compensation' as two of the dimensions that measure service recovery efforts. It is also important to determine if Chilean customers expect to be compensated or if they would be satisfied with banks reversing their mistakes only.

Another dimension of service recovery related to distributive fairness is apology. Davidow (2000) considers an apology as a psychological compensation that clients receive from their suppliers when there has been a service failure. It is an acknowledgement of the complainant's distress. It is a method that can be used by the business to express regret that the customer did not derive the arranged benefit from their service (Boshoff and Leong, 1998). Despite this, Goodwin and Ross (1990) suggested that an apology would not compensate for failure to provide a tangible outcome. However, Davidow (2000) concluded that an apology had a positive effect on word of mouth valance (e.g. positive or negative word of mouth), but it had a negative effect on repurchase intentions and no effect on customer satisfaction. Martin and Smart (1994) assert totally different conclusions, finding that while an apology has a significant effect on customer satisfaction, it did not have an impact on repurchase intentions. Ruyter and Wetzels (2000) arrived at similar conclusions to Davidow (2000), and found that apology does not affect customer satisfaction. Hoffman and Chung (1999) found that an apology on its own is not enough of a response to a complaint, a finding supported by Goodwin and Ross (Goodwin and Ross, 1990; 1992) who reported an interaction effect between apology and redress. Boshoff and Leong (1998) found that customers evaluate service recovery efforts more positively when the business takes the blame rather than when the business blamed a third party or the customer. Similarly, Conlon and Murray (1996) showed that a business that accepts responsibility for the problem increased the satisfaction of their customers and their repurchase intention compared to a business that does not accept the blame. Regarding the banking industry, several researchers have shown that an apology is essential in any recovery effort (Boshoff and Leong, 1998; Johnston and Fern, 1999).

Considering the Chilean culture, where honesty is valued very highly (Latin Focus, 2004), it will be important to determine if an apology is considered necessary for Chileans when evaluating banks efforts of service recovery or if other service recovery dimensions are considered more important, such as compensation.

In sum, and based on the analysis of the literature, three dimensions of service recovery (see Table 2.4) that belong to distributive fairness, will be further studied in the current investigation.

Table 2.4 Service Recovery Dimensions Related to Distributive Fairness

- Apology
- Correction
- Compensation

Conclusion Regarding Service Recovery Dimensions

Researchers have considered different dimensions of service recovery for procedural, interactional and distributive fairness. However, most researchers have attempted to research the impact of three or less dimensions on service recovery evaluation at the same time. Davidow (2000) established that some researchers have studied similar aspects of service recovery, but they have labelled them under different names. For instance, Boshoff (1999) used the term ‘atonement’ to include different response outcomes to a complaint, while Davidow (2000) calls it ‘redress’, and most researchers call that dimension ‘compensation’ (i.e. Boshoff, 1997; Conlon and Murray, 1996; Estelami, 2000; Tax and Brown, 1998). The usage of different terminology to refer to the same dimension has brought about the situation whereby several authors have seemingly used different dimensions, when in reality, they are expressing a similar aspect of service recovery. The research undertaken in this thesis aims to standardise the service recovery dimensions in terms of their meanings and importance to Chilean retail banking customers.

With regard to the banking industry, different banking recovery strategies have shown to be effective for various types of service failures. Such a finding reaffirms the need for evaluating bank service recovery efforts relating to different types of products, such as, cheque accounts, credit cards, loans, etc.

In regards to Chile, Valenzuela et al’s (2006) research showed the need for determining the service recovery dimensions that are relevant to Chilean customers.

Also, the meaning Chilean customers gave to different service recovery dimensions, such as, compensation, time and employee behaviour needs to be addressed by the current research.

The fact that different terminology and meanings related to the dimensions of service recovery have been used in past studies makes those dimensions unreliable when trying to apply them to the context of the management strategy development of customer service. Moreover, considering that the country under study has a unique culture and socio-economic background, it is relevant to determine the service recovery dimensions that are important to Chilean customers and also to determine if there are any differences in the service recovery evaluation on the basis of type of bank, gender, or level of education. Hence the following two questions have been established in this investigation:

RQ1a. Which dimensions form the construct of service recovery evaluation from the Chilean customer's perspective?

RQ1b. Are there any differences in the service recovery evaluation on the basis of type of bank, gender or level of education?

In addition, the current research aimed to determine the relationship between global service recovery evaluation and the service recovery dimensions in order to determine which dimensions of service recovery have a greater impact on the way Chilean customers evaluate service recovery efforts. Hence another question was established in the investigation:

RQ2. How do service recovery dimensions relate to global service recovery evaluation?

Finally, past research has not shown conclusive results regarding the interaction between the service recovery dimensions. Customers expect several actions from their supplier, such as the correction of bank mistakes and compensation. Similarly, the literature shows that there is an interaction among some service recovery dimensions (Blodgett et al., 1997; Boshoff, 1997; Goodwin and Ross, 1992; McCullough et al., 2000; Sparks and McColl-Kennedy, 2001; Sparks and Callan, 1995; Sparks and Callan,

1996; Sparks and Bradley, 1997). Meanwhile, other researchers have found no significant interaction between the service recovery evaluations they based their studies on (Sparks and McColl-Kennedy, 1998; Megehee, 1994; Ruyter and Wetzels, 2000). Hence, another two questions were established in the investigation.

RQ3a. Are there three-way interactions between the service recovery dimensions?

RQ3b. Are there two-way interactions between the service recovery dimensions?

So far, the literature review relative to service recovery has been shown. The other important topic of research is switching barriers. This concept is further elaborated in the next section of this chapter.

2.6 SWITCHING BARRIERS

As defined by Jones et al. (2000), a switching barrier is any factor that makes it difficult or costly for customers to change providers.

Switching barriers have been classified differently according to various researchers. Ping (1993) classified switching barriers as encompassing the following aspects for customers: a) lack of an attractive alternative, b) high relationship investment and c) high associated costs with switching to another attractive alternative. Jones et al (2000) divides these switching barriers into: a) interpersonal relationships and b) attractiveness of alternatives. Other researchers have added another variable called “customer inertia”, which has been classified as a sort of spurious loyalty (Bozzo, 2002; Ranaweera and Neely, 2003; White and Yanamandram, 2004). The concept of “customer inertia” means that customers might continue doing business with the company even though they might have plenty of reasons to be dissatisfied (White and Yanamandram, 2004). Colgate (1999) suggests that a very low percentage of customers of financial institutions switch among businesses which might be an indication of customer inertia or barriers to switching. Past researchers have used the concept of customer inertia with two totally different meanings. Some used the concept to show that customers do not switch due to a lack of attractive alternatives, high switching cost or other switching barriers (Bozzo, 2002). Other researchers established that dissatisfied customers do not switch because of laziness or because they are inactive/passive (Colgate and Lang, 2001; Zeelenberg and Pieters, 2004).

Panther and Farquhar (2004) concluded that dissatisfied customers with financial service providers do not switch due to the following factors:

- It is too much hassle to change service providers.
- They did not have the time to change or evaluate service providers.
- They were tied to the business because they had a product or other commitment with their supplier.
- They perceived all businesses in that product category as similar.
- They have traditionally been with their current service provider and intend to stay with them.

Julander and Soderberg (2003) proposed that switching barriers can be seen as positive or negative. Hirschman (1970) explains these two concepts saying that positive switching barriers are related to 'wanting to be in a relationship' while negative switching barriers are related to 'having to be in a relationship'. These concepts are similar to those used in past studies that have focused on organizational commitment and that have divided this construct into three: affective, continuance and normative (Blau and Boal, 1987; Meyer and Allen, 1991; Suliman and Iles, 2000; Wong et al., 2002). Affective commitment is shown as a psychological state in which an employee identifies with a particular organization and its goals and desires to maintain membership with the organization (Blau and Boal, 1987). Continuance commitment is a sense of commitment arising out of a customer perceiving few alternatives or options or due to a feeling that the sacrifices involved in switching to another service provider would outweigh the benefits (Allen and Meyer, 1990; Suliman and Iles, 2000). The normative commitment relates to a moral obligation of the employee towards their organization (Suliman and Iles, 2000). The major difference between the classification proposed by Julander and Soderberg (2003) and the one related to organizational commitment, is that the research on organizational commitment focuses attention on the commitment of the employee toward the company and positive and negative switching barriers focus their attention on the loyalty (or spurious loyalty) of the customer toward the company.

In terms of the positive or more reward-based type of switching barriers, businesses could strengthen the interpersonal relationship between the customer and the supplier in order to keep their customers (Berry and Parasuraman, 1991; Kaplowitz and Johnston, 2004; Tumball and Willson, 1989). Such a relationship offers a lot of benefits

to the customer, such as social benefits (e.g. fellowship, personal recognition), psychological benefits (e.g. reducing anxiety), economic benefits (e.g. discounts, time saving), and customization (e.g. personalized service) (Berry, 1995; Moon-Koo et., 2004; Peterson, 1995). Colgate and Danaher (2000) and Gwinner et al. (1998) show that customers commit themselves to establishing and developing relationships with a supplier that provides superior value benefits and effective switching barriers are good examples of them. The study done by Aldlaigan and Buttle (2005) that investigated customer attachment to retail banks, divided this construct into three main areas: organizational credibility, value congruency and relational values. The first relates to the level of trust that customers have with their current banks. The second refers to the congruency of values between customers and their banks. The last considers the personal relationships between customers and bank employees. The study done by Aldlaigan and Buttle (2005) needs to be validated in different settings in order to strengthen its usefulness as a customer service management tool. Hence, the current investigation will test these dimensions in a different context, namely the Chilean one.

With regard to the negative or more punitive type of switching barriers, businesses could use 'switching costs' and 'lack of existing attractive alternatives' to prevent their customers from exiting. Switching costs are customers' perceptions of the time, money and effort they expend when changing service providers (Jackson, 1985; Jones et al., 2000; Kim et al., 2003; Ping, 1993). Studies have researched the relationship of switching costs to repurchase intentions (Burnham et., 2003; Grace and O'Cass, 2003; Jones et al., 2000; Nielson, 1996; Ping, 1993; Sharma and Patterson, 2000) and several researchers have concluded that switching costs are one of the most important reasons why dissatisfied customers do not exit the business even though they may be dissatisfied (Beerli et al., 2004; Burnham et al., 2003; Caruana, 2004; Colgate and Lang, 2001).

The second variable called 'lack of attractive alternatives' refers to customer perceptions regarding the extent to which viable competing alternatives are available in the market place (Jones et al., 2000). Patterson and Smith (2003) see the existence of alternatives as a key factor for switching. Several researchers have shown that when viable alternatives are lacking, the probability of terminating an existing relationship decreases (Bendapudi and Berry, 1997; Jones et al., 2000; Sharma and Patterson, 2000). Alternatively, when customers perceive the existence of several attractive alternatives it is more likely that they will switch (Bendapudi and Berry, 1997; Jones et al., 2000;

Sharma and Patterson, 2000). Therefore, if dissatisfied customers are unaware of the existence of other attractive alternatives or if they do not perceive them as enticing, they are likely to stay in the relationship (Patterson and Smith, 2003).

The current research sets out to determine the dimensions that form the construct of switching barriers for Chilean customers. The study considered five dimensions of switching barriers, three of them are related to more positive categories of switching barriers (e.g. organizational credibility, value congruency and relational values), while the other two are related to more negative categories (e.g. lack of attractive alternatives and difficulties for switching). Table 2.5 shows these dimensions.

Table 2.5 Switching Barriers Dimensions

Switching Barriers Dimension
- Organizational Credibility
- Value Congruency
- Relational Values
- Lack of Attractive Alternatives
- Switching Costs (monetary, time, effort, etc.)

The current research also aimed to determine if there is any difference in the level of agreement regarding the presence of switching barriers in the Chilean retail banking industry on the basis of type of bank, gender or level of education. Considering all of this, the following two questions were established in the investigation:

RQ4a. Which dimensions form the construct for the switching barriers behaviour of Chilean customers?

RQ4b. Are there any differences in the level of agreement regarding the presence of switching barriers in the Chilean retail banking industry on the basis of type of bank, gender, or level of education?

Regarding the effect of switching barriers, Chatura and Jaideep (2003) concluded that switching barriers have both a significant positive effect on customer retention as well as a moderating effect on the relationship between satisfaction and retention. In practical terms, this means switching barriers increase customer retention for businesses and because satisfaction is a necessary but not sufficient condition to retain customers, businesses must use other mechanisms to retain customers, such as switching barriers. Julander and Soderber (2003) show that negative switching barriers have negative effects on customer satisfaction and attitudinal loyalty in that they increase levels of customer dissatisfaction and attitudinal disloyalty. However, negative switching barriers have a positive effect on repurchase intentions because they increase customer retention for businesses. Generally speaking, positive switching barriers have a positive effect on all variables in terms of customer satisfaction.

Julander and Soderberg (2003) also established that the effect of switching barriers on repurchase intentions and attitudinal loyalty, has been subject to much less attention from researchers. They recommended putting much more care into trying to define and operationalize positive and negative switching barriers, into considering customers from different environments with varying degrees of negative switching barriers and also asking customers if they remained in a business relationship because they had to or because they wanted to. Altogether, Julander and Soderberg (2003) felt this type of research would clarify the relative effect of switching barriers and customer satisfaction on customer retention.

In terms of the relationship between service recovery evaluation and switching barriers, Valenzuela et al. (2005) found that service recovery evaluation is highly related to positive switching barriers but not to negative ones. Therefore, in order to fully explore the interactive effects between service recovery evaluation and switching barriers from the viewpoint of the customer, more information is needed. Based on the need for more information the following questions were explored by this research:

RQ5a. Do switching barriers have an impact on how Chilean customers evaluate their bank's service recovery efforts?

RQ5b. Which switching barriers are more strongly related to service recovery evaluation than others?

2.7 GAPS IN THE LITERATURE

In terms of service recovery, there is no consensus as to what dimensions are meaningful or relevant for customers when evaluating an organizations' complaint handling. Consequently, there is not a valid instrument to measure service recovery that is used by organizations generally. It is also very clear that there is no conclusive information related to the importance of variables in generating customer complaint resolution satisfaction, nor regarding the way these variables interact amongst each other (Davidow, 2003). Thus, even if organizations want to have a mechanism for handling complaints, they are not able to design it in an optimum way.

With respect to switching barriers, the research is contradictory in terms of the impact of switching barriers among dissatisfied customers (Yanamandram and White, 2006). One study focused on the effect of switching costs amongst dissatisfied customers and showed that they do not exit the business due to high switching costs (Gronhaug and Gilly, 1991). In terms of more reward-based switching barriers, several studies have researched the business-customer relationship as a barrier for switching, but only a few studies have focused on dissatisfied customers (Burnham et al., 2003; Gronhaug and Gilly, 1991; Nielson, 1996). The influence of switching barriers on service recovery evaluation is not known. The one study that focuses on a cross-sectional sample of customers (Valenzuela et al., 2005) calls for industry based studies, due to the different type of switching barriers related to each industry. Industry based studies are important due to the different market conditions in which businesses operate as some operate in a very competitive environment while others don't. These environmental conditions might have either a positive or negative effect on the evaluation customers make of a business' ability to manage complaints. They might also affect the customers' post-complaint behaviour. Because of this, it is necessary to know if switching barriers influence service recovery evaluation, so businesses belonging to different industries can make decisions accordingly.

The literature review shows that most of the existing studies on service failure and recovery have taken place in the context of Western industrialized countries and there is almost no information about service recovery in South American countries with Hispanic target markets that have a different cultural and socio-economic background. There are a few studies that focus on customer complaining behaviour, such as Valenzuela (1999) and Valenzuela et. al. (2002a; 2002b), and one exploratory study related to the way businesses are handling complaints (Valenzuela, 2006). As a result,

businesses in these countries have to use information gathered in a totally different setting to make decisions regarding the design mechanisms for handling complaints. This may lead to inefficient decisions that affect the competent management of customer service, which, in turn, may impact negatively on business profit margins.

2.8 SUMMARY OF RESEARCH QUESTIONS

Based on the gaps in the literature and research on the topic of service recovery dimensions, evaluation and the relationship between service recovery evaluation and switching barriers, the following research questions have been developed. These questions are divided into five main objectives; the first one is related to service recovery dimensions and evaluation, the second one to the relationship of global service recovery evaluation with service recovery dimensions, the third to the trade-offs and effects of different levels of service recovery dimensions, the fourth to developing the construct of switching barriers and the fifth objective to the relationship of service recovery evaluation to switching barriers.

Research Questions about Developing and Evaluating the Construct of Service Recovery Evaluation.

RQ1a. Which dimensions comprise the construct of service recovery evaluation from the Chilean customer's perspective?

RQ1b. Are there any differences in service recovery evaluation on the basis of type of bank, gender or level of education?

Research Questions about Linking Global Service Recovery Evaluation and Service Recovery Dimensions.

RQ2. How do service recovery dimensions relate to global service recovery?

Research Questions about Trade-offs and Effects of Different levels of Service Recovery Dimensions

RQ3a. Are there three-way interactions between the service recovery dimensions?

RQ3b. Are there two-way interactions between the service recovery dimensions?

Research Questions about Developing and Evaluating the Construct Switching Barriers.

RQ4a. Which dimensions form the construct of switching barrier behaviour for Chilean customers?

RQ4b. Are there any differences in the level of agreement regarding the presence of switching barriers in the Chilean retail banking industry on the basis of type of bank, gender or level of education?

Research Questions about Linking Global Service Recovery Evaluation and Switching Barriers.

RQ5a. Do switching barriers have an impact on how Chilean customers evaluate their bank's service recovery efforts?

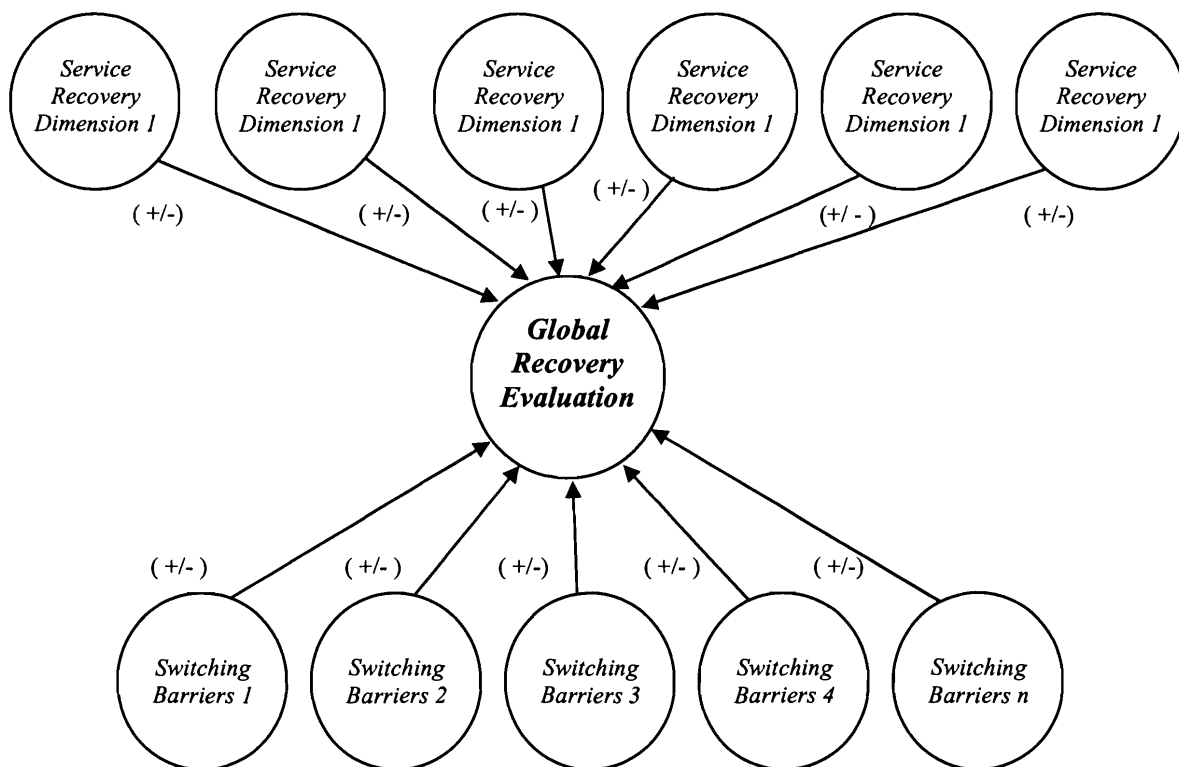
RQ5b. Which switching barriers are more strongly related to service recovery evaluation than others?

2.9 OVERALL CONCEPTUAL MAP

The overall conceptual map that reflects the research questions is depicted in Figure 2.4, which is a diagrammatic representation of the factors that will be investigated in the thesis. In the figure it can be seen that the research results generated from exploring

service recovery evaluation will have a certain number represented by 'n' service recovery dimensions. The figure also shows that the research on switching barriers will explore a certain number of dimensions represented also by 'n'. There is an arrow connecting global service recovery evaluation with service recovery dimensions and another one connecting global service recovery evaluation with the switching barrier dimensions, which show that the positive or negative relationship between these two constructs should be investigated.

Figure 2.4 Service Recovery Evaluation and its Relationship with Switching Barriers



2.10 SUMMARY

The basic concepts that were used in this research were discussed and analyzed in light of the existing research and literature on the topic. First, the concept of service quality was discussed. It was argued that companies want to offer a high quality service and some of them often seek to differentiate their service offering based upon the service quality they can deliver. The impact of culture on the perception of service quality was also addressed, arguing that cultural differences should be taken into account when defining service recovery dimensions. Then the characteristics of Hispanic banking customers were discussed showing that these customers have different attitudes, values and consumption preferences compared to non-Hispanic customers, making a case for a

unique marketing approach for the Chilean market. Second, the concept of service failure and its negative consequences were discussed. It was argued that service failures are almost inevitable so companies must be ready to respond to their customers when a service failure happens. Third, customer complaining behavior was discussed. It was revealed that not every dissatisfied customer complains and the two broad reasons that lead to this behavior, namely, negative attitude toward complaining and customers' perceptions of how poorly companies handle complaints were explained. Fourth, the concept of service recovery was presented as a means of dealing with customer complaints in order to increase the importance of service recovery within businesses and the leverage of the positive impact of effective service recovery on company profits. Effective service recovery efforts may increase customer loyalty, employee retention and may be a source of information that can allow the continuous improvement of service delivery. Fifth, the concept of service recovery evaluation was discussed and it was established that the dimensions that are important to customers when evaluating service recovery efforts have not, as yet, been fully delineated.

The concept of perceived fairness and the types of fairness that customers consider when evaluating efforts of service recovery were then analyzed. The review of literature and research found that customers consider three types of fairness, i.e., procedural, interactional and distributive fairness. Procedural fairness includes the company's visible policy and procedures related to the complaint process. Interactional fairness includes those dimensions that affect the interaction between the customers and the employee. Distributive fairness relates to the outcome of the complaint. It was also discussed that most of the studies dealing with service recovery have included at least one dimension of service recovery per each of the three types of perceived fairness.

Following these discussions about the concepts that will be researched in the thesis, the need for obtaining information relative to South American countries, and Chile in particular, was discussed based on the unique needs of Hispanic target markets in terms of service delivery. Next, the concept of switching barriers was discussed demonstrating that some switching barriers are more positive or reward-based while others are negative or more punitive. Then a set of research questions were established for the concept of switching barriers and their relationship with service recovery evaluation was explored. Following this, the gaps of the literature were discussed. Special attention was given to the lack of information related to service recovery that is valid for South American countries, and the lack of information regarding the

relationship between service recovery evaluation and switching barriers. Finally, a summary of the research questions and overall conceptual map were presented.

Chapter three outlines the methodology used in this investigation in order to answer the research questions established in this chapter. Special attention is given to the two methods used: qualitative focused interviews and surveys.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

Chapter Two presented an analysis of the existing literature and research about the main concepts used in this investigation, such as service quality, service failure, service recovery and switching barriers. Three types of research questions were also established and related to: a) developing and evaluating the construct service recovery evaluation, b) developing and evaluating the construct of switching barriers, and c) linking the constructs of service recovery evaluation and switching barriers. In this chapter the methodology that was used to address those research questions is discussed. First, an overview of the entire methodology is given, and then a detailed explanation of each of the stages of the methodology is provided. Then, information about the qualitative focused interviews and surveys is also presented so as to justify the method, questionnaire design, sampling parameters and approach to data analysis. Finally, some methodological limitations were discussed.

3.2 RESEARCH PARADIGMS

Two different methods were used to collect data in this study. Firstly, qualitative focused interviews were undertaken which are generally regarded as being within the interpretivist paradigm and secondly, surveys were administered that are considered as being within positivist interpretation (Clark-Carter, 2004:3).

Interpretive research usually relies upon qualitative data to provide an interpretive understanding that is the only possible way of uncovering or deconstructing the meaning of a phenomenon (Schwandt, 1997). Interpretive research treats the words and actions of the people studied very seriously (Stauss and Corbin, 1998:6). Bauer and Gaskell (2000:8) contend that social activities need to be distinguished before any frequency or percentage can be attributed to any distinction.

In contrast, positivistic research usually relies on quantitative data. Such research typically begins with a theoretical grounding, takes its direction from hypotheses or explicit study questions and uses a predetermined (and auditable) set of steps to confirm or refute a hypothesis. Positivist research adds evidence to the development of specific, causal and theoretical explanations of phenomena (Schwandt, 1997).

Within this investigation, interpretive research was used to yield important themes from discussions with customers that were then investigated via a positivistic research design (Clark-Carter, 2004:5). The methodology uses Bauer and Gaskell's prescription of 'what was used was a more holistic view of the process of social research, to include defining and revising a problem, conceptualizing it, collecting data, analysing data and writing up the results' (2000:9).

Primary data were gathered from the South American country, Chile. Chile has a unique cultural and socio-economic background when compared to the United States of America, the country on which most of the existing information relative to service recovery is based. Several researchers have mentioned that conceptual models developed in a particular cultural context and socio-economic environment cannot be totally transferred and generalized to another cultural context (Menguc, 1996; Spreng and Chiou, 2002; Yavas et al., 2003). Furthermore, the literature review demonstrated that the dimensions of service recovery that are currently available are contentious and at times contradictory. Hence, an exploration of the implicit meaning underlying these dimensions for Chilean banking customers is necessary before measuring and comparing their degree of importance within that cultural context. Information on the perceptions held by Chilean banking customers toward service recovery dimensions was gathered first through qualitative focused interviews. Then surveys were conducted to test the research propositions and to draw inferences about service recovery and switching barriers from the sample to the stated population. Each of these methodological types and data collection instruments will now be discussed in detail.

3.3 OVERVIEW OF RESEARCH METHODOLOGY

Considering that this study was conducted with Hispanic respondents who have a unique cultural background and economic situation, a specific survey was designed to measure service recovery in order to obtain valid measures. To achieve this goal, the collection of information to inform the study was "triangulated". In order to validate the themes that arose from the review of literature and existing research, qualitative interviews were undertaken and then tested with survey instruments. Hence the investigation was divided into three stages which was an adaptation of the methodology recommended by Churchill (1979). The stages that were followed in a sequential order were as follows:

- a) Stage 1: Literature and Existing Research Review.
- b) Stage 2: Qualitative focused interviews.
- c) Stage 3: Survey: Pre-test, Pilot Survey and Final Survey.

3.4 METHODOLOGY STAGES

3.4.1 Stage 1: Literature and Existing Research Review

Based on the literature review, a set of potential service recovery dimensions were defined. The next stage of the methodology was to undertake interpretive research to explore the implicit meaning of those dimensions for Chilean banking customers.

3.4.2 Stage 2: Qualitative focused interviews

Qualitative focused interviews with Chilean retail banking customers were conducted in order to gather primary data regarding the dimensions that are important to them when evaluating service recovery efforts.

Interpretive research is any type of research that produces findings not arrived at by statistical procedures or other means of quantification (Stauss and Corbin, 1998:10) and it aims to understand issues from the point of view of the people participating in the study (Schwandt, 1997). Methods that can be used to gather data for interpretive research are: observation, interviewing, ethnographic fieldwork, discourse analysis, and textual analysis (Travers, 2002). In this investigation, qualitative focused interviews were conducted because this method allowed the researcher to both “probe” the interviewee and gain their undivided attention. Following the interview style recommended by Minichiello et al. (1999:34-35), interviewers followed a conversational rather than interrogative style of questioning. They focused on motivating customers to recall, reveal and construct aspects of subjective experiences and interpretations and to help make discussions coherent and meaningful. Despite the importance of maintaining a conversational style, some semi-structured questions were used to maintain the pace and flow of the interview and to help the informant stay focused. Such a semi-structured approach was helpful in keeping to the time frame set for interviews (Minichiello et al., 1999:39).

Appendix 1 shows the semi-structured questions that were asked of respondents. To obtain information relative to service recovery processes and switching behaviours, respondents were asked about past complaining experiences, and in particular about those experiences that were either extremely well or poorly handled by banks. The

reason for this is that past research has shown that the influence of complaint experiences on customer loyalty is greater in extreme situations (Estelami, 2000). Estelami's (2000) research showed that the customer was either delighted with the way the business handled the complaint or they were very disappointed. The technique that underpins the cloak of respondents who have had extreme experiences in the past is known as the critical incident technique which was initially formulated by Flanagan (1954). The technique has been used broadly to cover different kinds of research issues and is essentially a procedure for gathering certain important facts concerning behaviour in defined situations (Flanagan, 1954).

Twenty-five qualitative focused interviews were undertaken with Chilean retail banking customers who had experienced either good or bad complaint handling procedures in the past. After conducting 20 interviews, convergence of opinions amongst the respondents began to surface, hence the information obtained was considered sufficient to address the goal of this study. Researchers have recommended continuing to undertake qualitative focused interviews until saturation or redundancy is reached in the interpretation of categories that emerge from respondents' opinions (Strauss and Corbin, 1990). However, as recommended by Yanamandram and White (2006), even though convergence started to occur at the 20 interviews mark, an additional five qualitative focused interviews were undertaken to decrease the chance of new information being missed. Sandelowsky (1995) established that the sample size for the qualitative portion of a combined study (qualitative and quantitative) would have to be expanded only if the data obtained from the participants already sampled is deemed informationally insufficient. A sample size of 25 was also considered appropriate in light of Travers' (2002:3) remarks regarding the lack of a hard and fast rule to determine how many people should be interviewed, and that this decision will depend mainly on the time available to collect, transcribe and analyse the data. Besides this, Bauer and Gaskell (2000:43) argued that more interviews do not necessarily imply better quality or more detailed understanding. They mentioned that the first group of interviews allow the researcher to obtain a lot of new information regarding the topic under study, but that after several interviews common themes begin to appear. Ultimately, sample size of qualitative studies is a matter of judgment and experience in evaluating the quality of the information collected against the uses to which it will be put (Sandelowsky, 1995).

Sampling Selection and Framework

As discussed in Chapter One, the Chilean banking industry can be grouped into three groups: global banks, banks focused on high income corporate and retail customers and niche banks focused on retail or corporate customers. Table 3.1 shows these groups and the different banks they contain. In terms of sampling for the qualitative phase, initially the 25 qualitative focused interviews were proportionally allocated to each group of banks (see Table 3.1), but during the fieldwork it was very difficult to contact customers from the niche banks who had complained. The reason for this may be the small number of clients that these banks have and the low number of transactions these customers make (they represent only 5% of the market share). Therefore, only two segments from the banking industry in Chile were considered in the qualitative phase of the study, global banks and banks focused on high income customers.

Table 3.1 Segmentation of the Chilean Banking Industry

Type of Banks	Name of the Bank
Global Banks	<ol style="list-style-type: none"> 1. Banco del Estado 2. Banco Santander 3. Banco de Credito e Inversiones 4. Banco de Chile 5. Banco Internacional 6. Banco del Desarrollo 7. Corpbanca 8. Scotiabank Sud Americano 9. Citibank
Banks focused on High Income Corporate and Retail Customers	<ol style="list-style-type: none"> 2. Banco Bice 3. Banco Security 4. Bankboston
Niche Banks focused on Retail or Corporate Customers	<ol style="list-style-type: none"> 1. Banco Ripley 2. Banco Falabella 3. Banco Paris 4. Banco Conosur 5. Banco HNS 6. Banco Monex 7. Banco Penta 8. Banco Do Brasil 9. ABN Amro Bank 10. HSBC Bank Chile 11. Banco de la Nac. Argentina 12. The Bank of Tokyo 13. Deutsche Bank Chile 14. JP Morgan Chase Bank 15. BBVA Chile

(Source: Adapted from Wigodski and Torres, 2003)

The selection of participants for the interviews was based on customers from the retail banking industry. They were asked to participate in a survey screening them on the basis of whether they had ever complained to a bank in the past and then how satisfied they were with the bank's response. Those respondents who answered that they had complained were invited to participate in an in-depth interview.

Initially, three potential ways of inviting customers to participate in the interview were considered for the data collection. Firstly, retail banks in Chile were to be asked to participate in the study and a random sample of complaining customers was to be taken from the list of all those included in the data base. The researcher was then to invite these people to participate in an interview. Secondly, in cases where banks would not provide the random sample (that is 1 above), with the banks approval, the researcher would approach customers as they were entering or exiting the bank and would invite them to participate in the interview. Next, individuals in a shopping mall were to be intercepted and invited to participate in an interview. The first option was the ideal one as it was thought that the sample would be more representative of the population required for the study. The other two participant gathering methods were considered as back up plans. Banks were approached for their participation but refused to divulge customer names. However, they agreed that customers could be interviewed when entering or exiting the bank.

With respect to the fieldwork required to conduct the qualitative focused interviews, the interviews were undertaken by the researcher with each interview lasting approximately 30 minutes. Every interview was also recorded to ensure no information was lost. Based on the recommendations of Minichiello et al. (1999:46) the researcher spent at least one day on each interview, to ensure sufficient time to do the interview and listen to the full recording at least twice. Before each interview started, an information sheet was provided to each interviewee, which contained all relevant information pertaining to the study. In addition, each respondent was asked to sign a consent form, within which they were asked for consent to record the interview.

Interviews were analysed using an inductive reasoning process, which utilizes the data to generate ideas or hypotheses (Holloway, 1997). Hycner's (1999) 11 step process was followed which included a range of issues that needed to be addressed when analyzing qualitative focused interviews rather than as a "recipe" procedure (Hycner, 1999). The steps were as follows:

- Transcription: all respondents' words were clearly understood or heard and were

- literally transcribed.
- Bracketing and the phenomenological reduction: the transcripts were read with openness to whatever meanings emerged.
 - Listening to the interview for a sense of the whole: the tapes were listened to several times to get a sense of the whole interview.
 - Delineating units of general meaning: the essence of the meaning expressed in a word, phrase, sentence and paragraph was obtained.
 - Delineating units of meaning relevant to the research question: the relationship of what the participant said in response to a research question was established.
 - Training independent judges to verify the units of relevant meaning: two independent judges were used to verify the findings. Each of them read the transcripts of the interviews and delineating units of meaning relevant to the research questions. Then the outcome of the two independent judges and the outcome of the researcher were compared.
 - Clustering units of relevant meaning: the different service recovery variables that had a similar meaning were clustered together.
 - Determining themes from clusters of meaning: the central themes of each cluster of service recovery variables were determined.
 - Identifying general and unique themes for all the interviews: themes common to most or all of the interviews as well as the individual variations were determined.
 - Composite summary: a summary report was written and a diagram was designed showing the customer's description of the process that is experienced when complaining within the Chilean banking industry. The diagram, which is shown in Chapter Four, page 93, includes all the dimensions that were considered important to customers when evaluating a bank's service recovery efforts. The diagram illustrates the main service recovery themes found in this investigation and the relationships between them. A visual representation is included in order to better see the connections between dimensions.

3.4.3 Stage 3: Survey: Pre-test, Pilot Survey and Final Survey

In order to test the validity and reliability of the themes that arose from the qualitative phase of the study, survey instruments were constructed, tested and administered.

Construct Development and Testing

The approach used to develop and test both constructs (service recovery and switching barriers) was the one used by Boshoff (1999), which consisted of three stages of development: a pre-test, a pilot survey and a final survey (see Table 3.2). The pre-test aimed to determine the overall clarity of the questionnaire from the perspective of the respondent. The pilot survey aimed to assess whether the data do indeed reflect the number of scale dimensions built into the questionnaire and allowed the researcher to purify the scales that measured service recovery and switching barriers. The final survey aimed to answer the research questions established in Chapters One and Two. The specific goals of the final survey were:

- 1) To confirm the service recovery dimensions obtained from the qualitative data and pilot survey,
- 2) To determine the relative importance of service recovery dimensions,
- 3) To determine customers' evaluation of those service recovery dimensions,
- 4) To determine whether Chilean customers encounter switching barriers and
- 5) To determine if there is a relationship between switching barriers and service recovery evaluation.

Table 3.2 Surveys and their Relationship to Construct Development and Testing

Pre-test	: - To check the clarity of questions in the questionnaire.
Pilot Survey	: - To purify the scales used in the final survey.
Final Survey	: - To undertake confirmatory factor analysis on the service recovery dimensions. - To undertake an evaluation of service recovery efforts. - To undertake an evaluation of whether Chilean customers encounter switching barriers. - To test the relationship between service recovery and switching barriers.

Questionnaire Design

The questionnaire was designed based on the information gathered in the literature review and the qualitative focused interviews. The document was originally written in

English and then translated into Spanish using the back-translation technique to ensure that both versions, English and Spanish, had exactly the same meaning. Appendix 2 shows the English version of the questionnaire used in this investigation. In it, respondents were asked about the experience they had the last time they complained. The questionnaire had four parts. The first two were suggested by Estelami (2000) and the other two were added to answer some of the research questions. The first part asked respondents to evaluate their bank's response to their last complaint. The second section inquired about respondents' perceptions regarding the existence of switching barriers in the banking industry. The third part asked respondents to evaluate a hypothetical scenario regarding a complaint situation and the final section inquired about the demographics of each respondent.

First and Second Part of the Questionnaire

In the first part of the questionnaire respondents were asked to indicate the level of importance of each item and also to evaluate the bank's performance in handling those items (e.g. *'the opportunity your bank gave you to tell your side of the story'*). To do so, two scales were used. The first scale aimed to measure the level of importance that customers attributed to every scale item included in the questionnaire. This scale had five points ranging from *not important* to *highly important* (the central point was *medium importance*) and allowed the researcher to determine the service recovery dimensions that were of most importance to customers when evaluating bank service recovery efforts. The second scale aimed to determine the perception of customers regarding the banks performance in handling their complaints. This scale had five points, ranging from *very poor* to *very good* (the central point was *neither poor nor good*), and allowed the researcher to determine the way Chilean customers evaluate bank service recovery efforts. The same scale was used to determine the relationship between service recovery and switching barriers.

In the second part of the questionnaire respondents were asked to refer to the presence of certain switching barriers in the Chilean banking industry (e.g. *'it takes too much time to find information regarding other banks'*). To achieve this, a five point Likert-type scale was used ranging from *totally agree* to *totally disagree* as recommended by Aldlaigan et al. (2005), which allowed the researcher to determine the respondent's degree of agreement or disagreement with a set of statements related to the existence of different types of switching barriers.

Third Part of the Questionnaire: Scenario Technique

In the third part of the questionnaire respondents were asked to evaluate a hypothetical complaint situation, in the form of a scenario. The purpose was to further determine the level of importance of certain service recovery dimensions with respect to the evaluation customers make of bank service recovery efforts. The scenario technique was used to prevent memory bias within the respondents' responses and to standardize the complaint situation under evaluation as suggested by Smith and Bolton (1998). The scenario involved only three constructs: customer time, complaint handling time and the need for complaint outcomes (e.g. correction and compensation). These three constructs were chosen for this part of the questionnaire based on the following three conclusions from the qualitative focused interviews:

a) Customers do not want to spend too much time on the actual process of complaining.

b) Customers are willing to wait for a solution to their complaint as long as they know how long it will take for the bank to solve the problem.

c) Customers expect their banks to reverse their mistakes and in extreme cases they expect to be compensated by their banks.

A 2x2x3 factorial design was implemented which means that 12 scenarios were considered in the study. Table 3.3 shows the dimensions under study and the different levels for scenarios and Table 3.4 shows the generic written scenario that was used as the template for all scenarios. Scenarios were randomly allocated and each respondent evaluated only one of the 12 possible scenarios from the written scenario template shown in Table 3.4.

Table 3.3 Dimensions and Levels for the Factorial Design

Dimensions	Levels
Customer Time	- Not much time - A lot of time spent
Complaint Handling Time	- 1 week - 1 month
Complaint Outcome	- No correction of bank mistake - Correction of bank mistake - Correction and Compensation

Table 3.4 Written Scenarios

On checking your bank statement you realize that the bank has charged you \$100 for credit card maintenance fees, but when you opened your credit card your customer services officer said that you would not have to pay such a charge. You go to the bank and complain to your customer services officer. *(You spend a lot of time talking to your customer services officer on several occasions either by phone, personally or by e-mail / You talked to your customer services officer on only one occasion and he tells you that in one more week the bank will tell you the outcome of your complaint)* and after *(one week / one month)* your customer services officer tells you that *(the charge would not be reverted / the charge would be reverted / the charge would be reverted and you would not have to pay the chequing account maintenance fee for one year to compensate for the bother).*

To evaluate the different scenarios four dependent measures were used. Three of them were measured using two scale items, one in a positive direction and the other in a negative direction. The idea was to force respondents to spend some time thinking about the answer to one particular statement in order to avoid mechanical answers (i.e. either agreeing or disagreeing with all statements). For data analysis purposes, the negative direction scale items were inverted and then an average score was obtained for each dependent measure.

Two scale items were relative to the outcome of the complaint, a further two dealt with customer time and an additional one with complaint handling time. Complaint outcome was measured using two scale items (from Blodget et al., 1997), which were:

“Taking everything into consideration, the outcome I received was fair”, and

“In resolving the problem, the bank did not give me what I needed”.

The complaint handling time was measured by two statements taken from the work done by Blodget et al. (1997):

“The customer services officer was quick in dealing with my problem” and

“The length of time taken to resolve my problem was longer than necessary”.

In terms of the evaluation of the customer’s time, and considering that it was a new concept, this service recovery dimension was measured using two statements created by the researcher. These statements were:

“The time I had to spend to get my problem solved was adequate”, and

“I spent more time than necessary to get a solution to my problem”.

To get an overall evaluation of bank service recovery efforts, one additional dependent measure was included in the questionnaire. This dependent measure was global evaluation and it was measured using a question taken from the research done by Wirtz and Mattila (2003). This question was ‘How satisfied would you be with the business’ handling of the problem?’ which was measured using a five point scale ranging across very satisfied to very dissatisfied.

In terms of the data analysis, MANOVA was performed. MANOVA was useful for examining differences across a set of metric dependent variables, given that the independent measures were categorical (Hair et al., 1998). The interval scale dependent measures were the seven items that were used to evaluate each of the scenarios discussed earlier and the independent variables were the three between–subjects factors (customer time, complaint handling time and complaint outcome). As shown in Table 3.3, customer time varied at two levels: not much time and plenty of time; complaint handling time also varied at two levels: one week and one month; and complaint outcome at three levels: neither correction of the bank’s mistake nor compensation, correction of the bank’s mistake and correction and compensation.

Pre-test

The questionnaire was first given to 25 customers from the retail banking industry to check for survey clarity. The purpose of the pre-test was to ensure that the manner in which the questionnaire and the questions themselves were presented was clear, easy to interpret and meaningful to respondents (Boshoff, 1999). The questionnaire was administered by intercepting customers as they were entering or exiting a bank in Concepción, Chile. Appendix 3 shows the information sheet provided to respondents

about the research and the consent form they were asked to sign in order to participate. Once the questionnaire was administered, respondents were asked their opinions about the questionnaire. Based on those opinions two broad changes were made to the questionnaire. Firstly, the questionnaire was rewritten in the second person instead of the first person, as many participants found the first person style too confusing. Secondly, the first part of the questionnaire was later divided into sections because the questionnaire was considered too long by many respondents in the pre-test.

Pilot Survey

To purify the scales used in the questionnaire for the final stage of the research, a pilot survey was conducted. 360 randomly selected customers who had complained in the past completed the questionnaire for the pilot study. To make sure that respondents met the primary criteria to participate in the study, the first question of the questionnaire asked respondents if they had complained in the past to a bank. Those who answered in the affirmative were asked to continue answering the rest of the questions. The sample size of 360 was decided upon because the first part of the questionnaire had 72 scale items and since exploratory factor analysis requires a minimum 5:1 ratio of cases to variables, this led to a minimum sample size of 360 (Hair et al., 1998).

Nine interviewers were hired to administer the questionnaire and the same process as for the pre-testing was undertaken. A data base provided by the council of the Chilean city of Concepción was used to select the interviewers. The data base contained contact details of people who had done past fieldwork for the city of Concepción council. The evaluation of their work was also included in this list. By using that data base, 11 potential interviewers were short listed and after having a telephone conversation with them, only nine were finally selected to do the fieldwork.

A meeting was held with all the interviewers in order to explain the purpose of the survey and the details of the questionnaire. Interviewers were told that the questionnaire had to be orally administered, that they had to adhere closely to the question order and wording, and all issues relative to the fieldwork were explained. Once the discussion was finished, each interviewer was given 40 questionnaires. The researcher's contact details were also given to interviewers in case they had a question or a doubt about how to proceed with the fieldwork. In addition, the researcher monitored the interviewers' method of administering the survey by observing their performance during the first two

days of the fieldwork. One week later another meeting was held to check how the process was going.

To ensure that interviewers correctly administered the questionnaire, all the customers who were interviewed were telephoned to ask if they had participated in a survey concerning complaints to their bank. Ninety percent of these customers were reached by phone and all of them confirmed that they had participated in the study. The other ten percent of the customers who participated in the survey could not be reached by phone, either because the line was busy or they did not answer the phone. These customers were called up three times and after that it was decided not to phone them again.

Exploratory factor analysis was then performed on the data collected for the pilot study in order to purify the scales relative to service recovery and switching barriers. This analysis used the principal components analysis as an extraction method. Varimax rotation was used, which is an orthogonal rotation because uncorrelated factors were expected and because factor loading³ values would be close to zero or one and these figures would assist the interpretation of each factor (Afifi and Clark, 1996:366). Varimax rotation also allows the achievement of discriminant validity among the factors because scale items get a high loading value with one factor and low loading values with the rest of the factors of the factorial solution. To determine the number of factors that needed to be interpreted only eigenvalues over 1.0 were accepted because, on average, it does not make sense to have a factor that explains a percentage of the variance lower than the equivalent of one standardized variable (Walsh, 1990:333).

The approach used to purify the scales was similar to the one used by Boshoff (1999) which, after each exploratory factor analysis solution, followed the steps below:

a) First loading values were checked and all those scale items with loading values below 0.4 in all the factors were considered as not belonging to any factor, hence they were eliminated. After eliminating any non-loading scale items a refined exploratory factor analysis was performed removing the deleted items.

b) If all loading values were higher than 0.4, the number of scale items contained within all factors was checked. A factor that has fewer than two scale items is considered as not being able to be interpreted, thus the factors that had fewer than two

³ 'Factor loading is the correlation between the standardized variable *i* and the factor *j*', (Afifi and Clark, 1996:359).

scale items were removed from the data set and a refined exploratory factor analysis was run.

c) If all loading values were higher than 0.4 and all factors had at least two scale items, the discriminant validity of each scale item was checked. A scale item was considered to have discriminant validity when its loading value was higher than 0.4 in only one factor. All scale items that did not present discriminant validity were deleted from the data set and a refined exploratory factor analysis was performed.

d) If scale items did not present any of the issues mentioned earlier, their internal reliability and item analysis was checked as suggested by Churchill (1979). A cutoff point of 0.70 was considered for the retention of factors as recommended by Nunnally (1978) and Peterson (1994) because this would mean that the factor has internal reliability. In addition, a cutoff point of 0.4 was considered for the corrected item-to-total correlations as recommended by Boshoff (1999).

Main Survey

Reflecting the outcomes of the pilot survey, the questionnaire was re-designed by removing all the scale items of service recovery and switching barriers that did not meet one of the four criteria explained earlier: scale items with low loading values, factors with fewer than two scale items, scale items with no discriminant validity and factors with low internal reliability. Then the questionnaire was administered to 360 customers who were entering or exiting a bank. The sample size was equal to approximately 10 times the number of items in the questionnaire which is the minimum sample size required for structural equation modelling (SEM) (Hair et al., 1998). The justification for SEM will be discussed later in this chapter. Data was gathered using the same process as for the pilot survey. However, different types of data analysis were performed depending upon the goals of the research objectives and these will now be explained.

Confirmatory Factor Analysis. Confirmatory factor analysis was performed on the final survey to ensure that items related to service recovery and switching barriers could be shown to reflect the expected number of factors (based on the pilot study outcomes). The analysis sought to determine if the number of factors and the loading patterns of measured (indicator) variables on them conformed to what was expected on the basis of the pilot outcomes. The approach used to perform confirmatory factor analysis was that

of structural equation modelling (SEM) using the software package AMOS 7.0. While SEM is typically used to model causal relationships among latent variables (factors), it is equally possible to use SEM to explore CFA measurement models (Garson, 2006). In this analysis all variables belonging to one particular common factor (identified in the pilot study) were allowed to be free to load on that factor, but restricted to zero loadings on the remaining factors (Byrne, 2001:6). This process allows a confirmation of the existence of the factor structure obtained from the pilot survey outcome.

Four goodness-of-fit statistics were calculated to determine if the model being tested had to be accepted or rejected. These indices were: a) the goodness-of-fit index (GFI), b) the adjusted goodness of fit index (AGFI), c) the comparative fit index (CFI) and d) the root mean square error of approximation (RMSEA)⁴. For the first three of these statistics a value over 0.90 was considered as acceptable, whereas for the last index an upper value of the 90% confidence interval lower than 0.8 was an indication of excellent goodness of fit. These four goodness-of-fit statistics were used because they are the most commonly reported in academic SEM research and also, the minimum or maximum expected values for each statistic were recommended by Byrne (2001:79-88) because they show a model that is considered to be an acceptable means of data representation.

Evaluation of Chilean Banks Service Recovery Efforts. One of the research questions asks how Chilean customers evaluate bank service recovery efforts. An overall evaluation was obtained using question four of the questionnaire where respondents were asked to give an overall impression of the way they thought the bank handled their last complaint. In addition, an average evaluation for each service recovery dimension was determined. To do this, a mean was calculated for each service recovery dimension taking into consideration the different scale items within each of these dimensions. Furthermore, one-way MANOVA were performed to determine if there were statistical differences in the evaluation of bank service recovery efforts between various banks, or for gender or level of education.

⁴ GFI deals with error in reproducing the variance-covariance matrix; AGFI is a variant of GFI which adjusts GFI for degrees of freedom; CFI compares the existing model fit with a null model which assumes the latent variables in the model are uncorrelated; and RMSEA is the discrepancy per degree of freedom (Garson, 2006).

Presence of Switching Barriers in the Chilean Banking Industry. To determine the presence of switching barriers in the Chilean banking industry, a mean was calculated for each switching barrier dimension while taking into consideration the different scale items within each. In addition, one-way MANOVA were performed to determine if there were statistical differences in the perception or existence of switching barriers between banks, gender or level of education.

Relationship between Service Recovery Evaluation and Switching Barriers. To determine the relationship between service recovery evaluation and switching barriers, SEM was performed. The structural equation modelling process proceeded in two steps: firstly, validating the measurement model and secondly, fitting the structural model (Garson, 2006). The first step was accomplished through confirmatory factor analysis (explained earlier in this section). The second one was accomplished through path analysis with latent variables.

This statistical analysis was used because, according to Raykov and Marcoulides (2000:1), it provides a comprehensive method for the quantification and testing of theories. Also, the data set met all the requirements to perform this analysis, such as, more than one dependent and independent variable, the dependent and independent variables were at the interval level where at least one of them was an intervening variable and at least one of them was a latent variable (i.e. unmeasured), for example, normality of distribution and the non presence of multicollinearity.

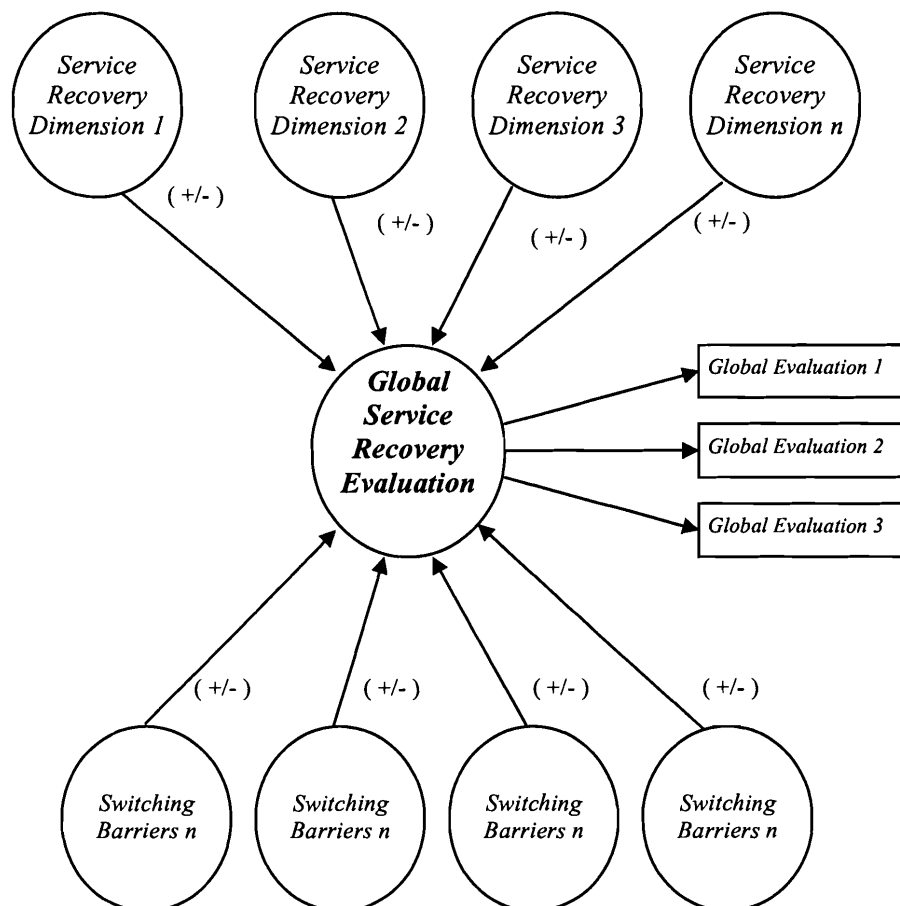
The SEM approach used to test the model was the model development one, which is the most common approach found in the literature (Garson, 2006). Thus, both confirmatory and exploratory purposes were combined. Therefore, a model was tested using SEM procedures and if the model was found deficient, an alternative model was then tested based on changes suggested by SEM modifications indices.

To determine the goodness-of-fit, the same indices used for confirmatory factor analysis were considered (GFI, AGFI, CFI and RMSEA).

The tools for examining the fit in detail were the residuals covariance and modification indices as suggested by Byrne (2001:88). The residual covariance is the difference between the model-estimated correlations and observed correlations. The variables in need of being respecified in the model were those with covariances larger than $\pm .10$ (Garson, 2006).

Figure 3.1 illustrates the different elements of the research project in diagrammatic form. The diagram shows a relationship between service recovery evaluation and switching barriers. The global service recovery evaluation construct was comprised of three global evaluations (the arrow goes from the latent variable to the observed variables). In addition, a set of dimensions for service recovery were added to the diagram. An arrow that goes from each service recovery dimension to the service recovery evaluation construct was added to represent the relationship between the construct and the dimensions of service recovery. Symbols (+/-) were added to the figure to represent the fact that the relationship may be either positive or negative. The figure also shows a set of dimensions for switching barriers and the relationship between these dimensions and the service recovery evaluation construct.

Figure 3.1 Relationship between Service Recovery Evaluation and Switching Barriers



3.6 METHODOLOGICAL LIMITATIONS

As with any research undertaking, some methodological limitations must be acknowledged.

First, and despite all the efforts made to ensure that the sample truly represented the population, the way the sample was selected may not be considered as totally representative of the population. Customers were selected when they were entering or exiting a bank, therefore it can't be guaranteed that all individuals within the population had the same probability for being selected for the study. Future studies could use a different approach to select respondents in order to make it more representative. Selecting respondents from a list of customers who complained to a bank may be one option, provided that such a list exists and it can be obtained from the bank.

Furthermore, regarding sample size, more than 50% of customers who participated in the study complained to Estado Bank. Because of this, the other banks may be under represented in the sample.

3.7 SUMMARY

Chapter Three begins by discussing the interpretive and positivist paradigm. Interpretive research is used to understand issues from the point of view of the people participating in the study, while positivistic research depends heavily on quantitative data which measures trends and compares variables to representative samples in order to describe and generalise findings.

The investigation used a multi-levelled approach using both types of research. It utilized a triangulation approach, gathering data from three different sources, in order to validate the themes that arose from the literature review and the interpretative research with testing using positivistic research. Three stages were undertaken and sequentially they were: literature review, qualitative focused interviews and surveys.

The literature and existing research review was undertaken and their results were shown in Chapter Two.

25 qualitative focused interviews were undertaken, in which respondents talked about those experiences that were extremely well or poorly handled by banks. The participants were invited to take part in the interview as they were entering or exiting a bank because the banks refused to participate in terms of giving out customer names. To analyse the qualitative interviews, 11 steps were followed which allowed the identification of themes that were meaningful and important to Chilean customers who had complained about their banking services.

For the survey phase, three surveys were conducted. In the pre-testing survey 25 retail banking customers were interviewed and its aim was to check the clarity of the

questionnaire. The idea was to make sure that the questions and the questionnaire itself were clear and easy to interpret and respond to. The second pilot survey was undertaken to purify the scales that measured service recovery and switching barriers which led to a reduction in the number of scale items in the final questionnaire. Exploratory factor analysis was used to purify the scales, leading to interviewing a minimum of 360 retail banking customers who had complained in the past to their bank. In the final survey, another 360 customers were surveyed. Structural equation modelling (SEM) was performed which required a sample size of 360 participants in the survey. SEM was used to answer the research goals established in this investigation which are: to confirm the service recovery dimensions obtained from qualitative focused interviews and pilot survey; to determine the relative importance of those service recovery dimensions; to determine customer evaluation of those service recovery dimensions; to determine the presence of switching barriers; and to determine if there is a relationship between switching barriers and service recovery evaluation.

Then some methodological limitations were acknowledged. It was discussed that the sample may not be considered as totally representative of the population and that results depended on customers memories which may have been incomplete or distorted.

Chapter Four presents the results of the qualitative focused interviews and also discusses the characteristics of the respondents that participated in the interview. Then it outlines the service recovery dimensions that are important to Chilean retail banking customers along the different stages of the complaint process that customers go through from the moment they lodge the complaint until the bank responds and satisfies the customer. Chapter Four also discusses the dimensions related to switching barriers that arose from interviews with Chilean customers.

CHAPTER 4: FINDINGS OF THE QUALITATIVE FOCUSED INTERVIEWS

4.1 INTRODUCTION

The previous chapter described the methodology that was used in this investigation. Special attention was given to the qualitative focused interviews and surveys undertaken to answer the research questions. This chapter shows a summary of the key findings of the qualitative focused interviews that were conducted with Chilean retail banking customers. First, the characteristics of customers who participated in the qualitative focused interviews are discussed, and then the results of the qualitative focused interviews are presented revealing the dimensions of service recovery that are important to Chilean customers when evaluating bank service recovery efforts. These dimensions are presented in three steps: a) aspects that are important depending on the way the complaint was lodged (e.g. to the customer service officer, to another bank employee, etc.), b) service recovery dimensions that are important when a bank receives the complaint (e.g. employee behavior, time) and c) service recovery dimensions that are important when the bank makes a decision regarding the complaint (e.g. reversal, compensation, etc.)

4.2 QUALITATIVE FOCUSED INTERVIEWS

25 qualitative focused interviews were conducted of Chilean customers of the retail banking industry in order to determine the dimensions that are important for them when evaluating bank service recovery efforts and to obtain information regarding their switching behavior. As explained in Chapter Three, respondents were selected when entering or exiting a bank and a survey was administered to those who agreed to participate. Of those who answered the questionnaire, 15% showed extreme experiences when complaining in the past. These 15% were invited to participate in an in-depth interview and all who were asked were willing to participate. All these respondents had financial products, such as, a cheque account, a credit line, a credit card and some had a bank loan with their existing bank. Table 4.1 shows the demographic characteristics of the respondents who participated in this study. 70% of the sample was male and 30% female. As mentioned in Chapter Three, these customers were asked to talk about their best and/or worst experience when complaining. Every time a customer had complained

in the past they had evaluated the bank service recovery efforts related to that complaint. Based on that evaluation they classified their complaining experiences as either positive or negative. 24 out of 25 of the customers that were interviewed talked about their worst experience when complaining, and 13 of them talked about their best experience. In total, 37 experiences were considered in this exploratory study.

Table 4.1 Sample Characteristics

	The Best Experience		The Worst Experience	
Total Number of Experiences	13		24	
Experiences by Bank	Scotiabank (4) Santander –Santiago (3) Chilebank (2) Bci (1) Edwards (1) Citybank (2)		Scotiabank (2) Santander –Santiago (13) Chilebank (3) Bci (3) BBVA (2) Boston (1)	
Experiences by Gender	Male 9 (24%)	Female 4 (11%)	Male 17 (56%)	Female 7 (19%)

4.3 RESULTS OF QUALITATIVE FOCUSED INTERVIEWS

The results related to the service recovery dimensions identified as important to respondents and switching behaviour described by respondents are discussed under sub-headings. The order of those sub-headings is presented in a sequential way according to how the respondents experienced their complaint handling.

4.3.1 Service Recovery Dimensions

To facilitate the understanding of the service recovery dimensions that arose from the qualitative focused interviews, the dimensions will be explained in line with the different stages of the complaint process experienced by Chilean retail banking customers from the moment they lodged the complaint until the bank responded and satisfied them. The process starts when a customer is dissatisfied with the level of service they receive from a bank and they express their unhappiness by complaining to

their bank. Based on the analysis of the qualitative focused interviews the complaint process was divided into three steps. The first one refers to the moment customers complain and the different ways of communicating the complaint to the bank (e.g. e-mail, phone, etc.). The second one relates to the bank's process of responding to a customer complaint and all the variables or dimensions that are important for customers when evaluating the bank's processes for responding to their complaints (e.g. employee behavior and time). The third step is related to the outcome of the complaint and the different variables or dimensions (e.g. compensation, apology, etc.) that customers expect from their bank when complaining. These three steps will next be explained in detail and in order under three sub-headings. In each of these steps examples of quotations taken from the qualitative focused interviews are included. A number is included with each quotation which corresponds to the number of the qualitative focused interviews from which the quote has been taken.

Step One: Complaints About Method Of Complaining

When customers feel dissatisfied with the service they are getting from their bank, the bank is experiencing a service failure. The customer might express their displeasure to the bank by complaining. For instance, one customer reported that when reviewing his statement he realized that the bank had charged him \$100 for the chequing account maintenance fee, and he was sure that when he opened the chequing account his customer service officer told him he would not have to pay any sort of maintenance fee. In order to get this problem solved, he phoned his customer services officer and complained. After one week the customer services officer phoned him to let him know that the charge was reversed (respondent # 2).

In the previous case the customer complained to his customer service officer by phone, but other qualitative focused interviews showed that that is not the only way that Chilean retail banking customers express their complaints. Customers generally express their dissatisfaction in four different ways:

- a) Complaining to their customer service officer either in person, by phone or by e-mail.
- b) Complaining to another bank employee either in person or by phone.
- c) Complaining to a call center by phone.
- d) Complaining through the banks web site by e-mail.

Most of the customers that were interviewed mentioned that the most typical way for them to express their complaints is by getting in contact with their personal customer service officer. Customer service officers are employees of banks who take care of all customer needs. In Chile, each bank has different customer service officers, and each customer service officer is the main link between the bank and a group of customers. For this reason, when customers need to contact their bank they invariably contact their customer service officer. The relationship that Chilean customers have with their customer service officer is so important that in the eyes of many Chilean customers their customer service officer is the bank, and customers evaluate banks according to the behavior of these customer service officers. Customers have three ways to express their complaints to their customer service officer, either by e-mail, phone or in person. The selection of one or another will depend on the kind of relationship customers have with their customer service officer. Some customers do not want to spend time going to the bank, so they prefer either phoning their customer service officer or sending a personal e-mail to them. Other customers prefer to go to the bank to talk personally with their customer service officer mainly because they want to see their customer service officer face-to-face. One customer mentioned that *'even though I do not have time to go the bank - I am rushing all the time- I do it because I want to see my customer service officer's eyes, so I can tell if he is telling the truth or not'* (respondent # 13). This customer also mentioned that by looking at his customer service officer's eyes he would know if he could trust him or not.

A second method for complaining is to do it directly to the employee in charge of a specific task in the bank (e.g. credit card, exchange currency). Chilean banks have different employees who work in different sections of the bank and who are in charge of specific products, such as credit cards and exchange currency, among others. In terms of complaints, sometimes customers do not talk to their customer service officer to inquire about their complaints, but rather they go directly to the section of the bank where the transaction is being handled. By doing so, they get immediate contact with those bank employees who have access to more precise information and can solve the problem quicker than the customer service officer.

A third possibility for lodging a complaint is using a virtual channel, such as a bank's web site. This alternative requires customers to send an e-mail through the bank's web site, which is usually received by the web site administrator. By using this method customers usually get an immediate reply which consists of an automatic email

generated by the bank web server that informs the customer that they will be contacted and asks them not to reply because it is an automatic response. One customer commented that they complained to one bank using the web site and got an immediate automatic reply. After three hours they received a personal e-mail from the bank employee in charge of handling complaints. *'I got that typical automatic e-mail....I do not want an automatic e-mail...then I got a personal e-mail from the person who was in charge so I knew they were following my case'* (respondent # 7). The employee asked him some questions and told him that he would take care of the problem and as soon as he had an answer he would communicate with him either by e-mail or phone. Another customer (respondent # 11) reported that he also complained to the bank through the web site and he got an immediate automatic answer, however he did not receive a personal e-mail from a bank employee. After two weeks he checked the bank web site and realized that the problem was already solved, but nobody had informed him that his complaint had been dealt with. *'I checked the website and I realized that the problem has been solved, but nobody had told me so'* (respondent # 11).

Another possibility for complaining is to phone a call center, where, an answering machine asks for customer contact details and informs them that a bank employee will get in contact with them as soon as possible. From the qualitative focused interviews it was concluded that Chilean banks are responding in different ways to complaints lodged via a call center. For instance, one customer (respondent # 6) reported that he had two chequing accounts in two different banks, that he complained to both institutions using their respective call centers and that the outcome from each bank was totally different. In one bank he got an automatic response from an answering machine that asked for his personal details and after four hours he got a phone call from a bank employee in charge of handling complaints. Four days later the same person phoned him to let him know the complaint was solved, and during the same day another person phoned him asking him for his impression regarding the way the bank handled his complaint. In the case of the other bank, he also phoned the call center and got a message from an answering machine, but he received no call back. He tried several times to lodge this complaint but never received a reply. *'I phoned several times, but I never received a call back from the person in charge of dealing with complaints'* (respondent # 6).

Step Two: The Bank Responds To The Customer's Complaint

Step two relates to the process the bank follows when deciding what answer they will provide to the complaint. The aim of this process is to find out if the bank actually had a service failure or if the customer had the wrong impression of the situation. In this process the two dimensions of “employee behavior” and “time taken by the bank to respond to the complaint” affected the customer’s evaluation of the bank’s efforts of service recovery. These two dimensions and the aspects of importance to customers within each dimension are discussed next.

Employee Behavior

In terms of the behavior of the banks’ employees, many customers in Chile feel that the relationship they have with their bank is represented by the link they have with their personal customer service officer. The analysis of the qualitative focused interviews showed that these concepts include four aspects: a) the attitude of the customer service officer, b) the customer service officer’s power to make decisions, c) taking care of the problem, d) telling the truth and e) information about the progress of the complaint. Customers expect customer service officers to display the following characteristics when handling their complaint.

Attitude of Customer Service Officer. Customers want customer service officers to be able to understand their situation from their point of view and to realize that if they are complaining it is because they really think they are asking for something they deserve. Also they want employees to understand all the psychological distress that may be related to the situation that is provoking the complaint. For instance, one customer commented that she lost her chequing account book, so she was very concerned about somebody cashing those cheques. Thus, she went to the bank and talked to her customer service officer and explained the situation, but she felt she was not treated well. *‘My customer service officer was very unpleasant to talk to...she should have understood the emotional distress that I was going through’* (respondent # 9). The customer service officer merely told her all the steps she had to follow to avoid any future problem involving lost cheques. Respondent # 9 followed those steps but realized she needed money in the process, so she returned to the bank and asked for a new cheque book at the front desk. However, she was told that she could not get a new cheque book for a couple of days. She complained to her customer services officer and she did not get any

solution at all, so she asked to talk to the bank manager and he immediately solved the problem. Other customers have commented that their customer service officers do not pay attention to what they are saying and that they sometimes feel very badly treated. One of these customers said, *'the customer services officer did not listen and did not pay attention...they should listen to what you are asking for'* (respondent # 10). Examples of customers' quotations regarding this dimension are presented in Table 4.2.

Table 4.2 Examples of Quotes Relating to Attitude of the Customer Service Officer

<p>- <i>They should listen to me, without any judgment!</i> (respondent # 4)</p> <p>- <i>I find the attention that I get from my customer services officer important</i> (respondent # 12)</p> <p>- <i>They should treat me well as a client</i> (respondent # 13)</p> <p>- <i>The employee should be amicable...I do not want to feel...like I am bothering them because I am complaining</i> (respondent # 14)</p>
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The Customer Service Officer's Power to Make Decisions. When customers complain they do not want to feel that their customer service officer is fobbing them off because they don't know how to solve their problem. Customers want to talk to the bank employee that has the power to solve their complaint, so they do not feel they are wasting their time talking to somebody who cannot provide a solution to their problem. An example of this issue is what respondent # 2 said, *'I want to talk to the person who makes the decision (that cut the cake - que corta el queue)'*. Some customers reported that after they complained their customer service officer told them that they would give them more information regarding the matter. After one week or so, they contacted their customer service officer again and received the same answer. This situation happened several times until these customers decided to talk to the bank manager who responded immediately to their complaints. After these incidents some of these customers talked to their customer service officer again and they confessed that they did not have the power to solve their complaints. One customer mentioned, *'the customer service officer asked me to talk to the bank manager to look for a solution to my problem'* (respondent # 6). More examples regarding this dimension can be seen in Table 4.3.

Table 4.3 Examples of Quotes Relating to the Need for the Customer Service Officer to have the Power to Make Decisions

<ul style="list-style-type: none">- <i>The customer service officer told me that the rules could not be changed, so he was not able to solve my problem (respondent # 16)</i>- <i>I was told that I have to send a complaint to the bank manager (respondent # 17)</i>- <i>That person either does not understand or does not have the power to manage the problem (respondent # 25)</i>- <i>I was told that an e-mail has to be sent so that the person could show it to a committee or to his boss (respondent # 25)</i>

Taking Care of the Problem. Customers also want bank employees to show that they really care for them and will try to look for an answer to their complaints. Several customers reported that they felt their customer services officers were not interested in solving their complaints and that they had an excuse for not finding a solution to the problem. Because of this, customers felt they were wasting their own time, but this behavior also made them feel unimportant. One of these customers mentioned that she thought that she did not have enough money to be important to the bank and that was the reason why the bank did not care about her complaint. *'I was not important for them as a customer, that is the reason why they did not take care of my problem'* (respondent # 4). Another customer mentioned *'the bank never cared about my situation'* (respondent # 21). Table 4.4 shows that other customers made similar comments regarding this service recovery dimension.

Table 4.4 Examples of Quotes Relating to the Need for Taking Care of the Problem

<ul style="list-style-type: none">- <i>She had a willingness to help me out (respondent # 1)</i>- <i>I wanted the situation to be solved and not to be left with the complaint process unfinished (respondent # 13).</i>- <i>She should have taken the time to solve the problem (respondent # 19)</i>- <i>The customer service officer gave me only 'aspirins'. He did not solve the problem! (respondent # 24)</i>

Telling the Truth. Customers also want to be told the truth. One customer mentioned that *'I expect everybody to be straight...when they do not want to say no, they job you off'* (respondent # 1). If employees are not going to solve the problem or if they do not have the power to solve it, customers expect to know the truth and not to be told lies, so they are not wasting their time. One customer advised that every time they got in contact with their customer service officer asking them about their complaints, the customer service officer responded by saying: *'tomorrow I will have an answer'* (respondent # 21), or *'we are analyzing the situation'* (respondent # 21). These customers got the impression that their customer service officer either did not want to, or could not, solve their complaints and was not being truthful. Another customer said *'they told me several times that the problem would be solved, but it never happened...they told me that twenty times'* (respondent # 9). Some other examples of customers' quotations reflecting this dimension are shown in Table 4.5 below.

Table 4.5 Examples of Quotes Relating to the Need for Telling the Truth

<ul style="list-style-type: none">- <i>They fooled me...They told me the problem would be solved, but it never happened</i> (respondent # 3)- <i>They lied to me</i> (respondent # 11)- <i>They tell you...this is going to happen and it does not happen</i> (respondent # 14)- <i>The customer services officer says something and it is not done</i> (respondent # 18)
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Information about the Progress of the Complaint. Customers also want to be informed at all stages about what it is happening with the progress of their complaints, so they know if their bank is taking care of their problem. They want to get information at different stages of the process. At the beginning of the process they are expecting an acknowledgment of their complaint and to be advised of how much time it will take for the problem to be solved and what they have to do to support the resolution of their claims. Once the time quoted by the bank to resolve the problem has expired, customers require further information, even if it means the bank requesting more time to solve the problem. One customer mentioned *'I was expecting somebody to tell me this is the problem and we are going to solve it in this way'* (respondent # 7). At the end of the process customers are expecting information regarding the outcome of their complaints.

A few customers said they had to phone their banks to inquire about the outcome of their complaints and even though they were told that their complaints had been solved they were not one hundred percent happy with the way their banks handled the complaint. For example, *'they should have called me and told me it was solved'* (respondent # 14). One customer said that his complaint had been solved, but that he had no idea it had been until he checked the bank web site, *'I checked the web site and realized that they had closed my credit card as I had asked them to'* (respondent # 18). Table 4.6 lists other examples of customers' comments that reaffirm the importance of this service recovery dimension.

Table 4.6 Examples of Quotes Relating to the Need for Information

During the Process

- *They should keep you informed* (respondent # 8)
- *Zero communication* (respondent # 17)
- *They should inform you in a timely fashion* (respondent # 19)
- *I called all the time asking how everything was going regarding the complaint* (respondent # 21)

For the Answer

- *They should call once the problem is solved* (respondent # 2)
- *The confirmation call was the most important for me* (respondent # 7)
- *They did not let me know that the credit card was closed* (respondent # 11)
- *I did not get any notice from the customer service officer, letting me know the problem was solved* (respondent # 23)

Obviously, the responses from customers during the qualitative focused interviews on the process of when the bank responds to the customer's complaint are highly contingent on employee behavior which includes the four aspects of attitude, power to make decisions, taking care of the problem, telling the truth and information about the progress of the complaint.

The next issue within this stage of the complaint process that is important to customers is the time or promptness related to the process.

Time or Promptness

This concept includes three aspects: a) promptness of acknowledging the existence of the complaint, b) time spent by the customer in the complaint process and c) time taken to solve the problem.

Promptness of Acknowledging the Existence of the Complaint. This type of promptness refers to the time the bank takes to acknowledge the existence of the complaint. When customers get an acknowledgment of their complaint from their customer service officer or another bank employee they know that somebody in their bank is trying to solve their complaint. One customer mentioned, *'I sent an e-mail to my customer service officer...he replied acknowledging the complaint and told me that any cost incurred due to the bank's mistake would be reversed, so I was not concerned about the time for solving the problem'* (respondent # 2). If the complaint is communicated to customer services officers by e-mails, the employee should reply as soon as possible to let the customer know their e-mail was received and that the situation will be analyzed: *'I was expecting an e-mail that established that the bank would check what was going on'* (respondent # 12). If the complaint is communicated by phoning a call center or sending an e-mail through a bank's web site, customers expect either a phone call or an e-mail from the bank employee who is in charge of handling the complaint. Automatic and standard e-mails or messages on answering machines are not considered personal enough in terms of a response to a complaint. *'I do not want an automatic e-mail...I want a personal e-mail sent by the person in charge of handling complaints'* (respondent # 7). The following are examples of customers' quotations reflecting this service recovery dimension in Table 4.7.

Table 4.7 Examples of Quotes Relating to the Need for Promptness when Acknowledging the Existence of the Complaint

<ul style="list-style-type: none">- <i>It is the time that one waits without any information (respondent # 8)</i>- <i>I did not get an answer to my e-mail for three months (respondent # 12)</i>- <i>They did not acknowledge getting the phone call (respondent # 15)</i>- <i>I was expecting somebody to tell me 'we know about your complaint and we are going to solve it' (respondent # 17)</i>
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Time spent by the Customer during the Complaint Process. A second aspect related to the dimension of time or promptness is the time that customers themselves spend in the process of solving their complaints. Customers do not want to spend too much of their own time on this process. One customer said, *'I went to the bank three or four times trying to look for a solution to my problem'* (respondent # 18). Customers expect proper information regarding how much time it will take to have an answer to their problems and they want to know if they have to show any particular documentation to the bank relating to their situation. A customer said he told his customer service officer, *'if you need something you have to ask me immediately...I do not want to do anything else to solve the problem'* (respondent # 14). Customers also want to reduce the amount of time they invest in solving their problems either by lodging their complaints by phone or going to their banks only once. One customer mentioned, *'I only had to phone my customer service officer once and he took care of everything'* (respondent # 18). Further examples of customers' statements reflecting this dimension are listed in Table 4.8.

Table 4.8 Examples of Quotes Relating to the Time spent by the Customer during the Complaint Process

<p>- <i>What is important is my time, not theirs</i> (respondent # 6)</p> <p>- <i>I expect the customer service officer to tell me when the complaint will be solved, so I can manage my time</i> (respondent # 9)</p> <p>- <i>I did not have to lose time in the complaint</i> (respondent # 18)</p> <p>- <i>I want to know what it means to me and what it doesn't mean to me</i> (respondent # 20)</p>

Time for solving the Complaint. There is a third category related to time relevant for customers and it is the time taken to completely solve the problem. It is logical to think that the less time that elapses in finding a solution to the problem the better, but in the mind of the respondents in the qualitative focused interviews the time they are willing to wait for outcomes to their complaints depends on the issues that caused the complaint and on the potential negative personal consequences of any mistakes the banks have made. For instance, respondent # 12 reported that his account was incorrectly charged with a maintenance fee and that he was willing to wait as long as it took for the bank to reverse the mistake. Another respondent (# 7) asked the bank to cash some investments and to deposit the money into his chequing account, but the bank did not complete the request for four days. He complained to his customer service officer and expected an immediate solution to the problem. He had issued some cheques and if the money was not deposited in his cheque account those cheques would be dishonored causing serious problems for him, '*They could have done it faster...especially in special situations*' (respondent # 7). Other respondents mentioned that the time spent for solving the complaint is not important as long as banks establish a period of time for resolution and provided that they have an answer once that period of time is over. Respondent # 17 reported, '*The bank should establish a period of time for the solution of the problem*'... '*it took them longer than they originally told me it would take to solve the problem*'. Some other examples of respondents' quotations reflecting this dimension are listed in Table 4.9.

Table 4.9 Examples of Quotes Relating to the Time Spent for Solving the Complaint

Short Period of Time

- *A quick answer is important, so that they do not take too much time for charging you. (respondent # 1)*
- *The problem was solved quickly (respondent # 2)*
- *The time for solving the problem is most important (respondent # 3)*

Effective Period of Time

- *If my customer service officer needed two months instead of one, he should have told me (respondent # 8)*
- *Seven days ...that means this coming Wednesday...so, not Thursday (respondent # 9)*
- *If they say 24 hours ... in 24 hours the problem should be solved... and not... in 24 hours more! (respondent # 14)*

In sum, the responses from customers during the qualitative focused interviews show the importance to customers of the time banks take to solve their complaints. Respondents considered the time banks take to acknowledge the complaint and to solve the complaint as very important. In addition, respondents mentioned that their own time is also important meaning that they do not want to spend too much time looking for a solution to their complaints.

The next issue within this stage of the complaint process that is important to customers is the responses given by the bank to the customer.

Step Three: Responses to the Customer

All customers who complained to their banks were expecting their complaints to be solved by their banks. However, the complaining process does not always end up with an answer from the bank to their customers. In this regard, there are two possible scenarios. In the first one, the bank does not give an answer to its customers and in the second one, the bank gives an answer which can be either positive or negative for its customers.

The Bank Responds to the Customer

When the bank responds to its customers regarding their complaints, the respondents in the interviews said the outcome of this process can be either positive or negative from the customer's point of view. A positive outcome means the bank admits that it had a service failure and that the bank has to do something to solve the problem. On the other hand, respondents said that from their perspective a negative outcome means the bank concludes that it did not have a service failure and that the customer is wrong.

The Bank concludes it did not have a service failure. If the bank decides they did not make a mistake, some respondents felt that banks should explain to them what had happened and offer them special support. The service recovery dimensions that arose from the qualitative focused interviews that are related to the various responses given by banks will now be discussed.

Explanation. One possible outcome of the complaint is that the banks may conclude that the customers were wrong in their impressions and that they do not deserve any type of restitution because of the complaint. If this is the case, customers expect a full explanation, which would allow them to know exactly what happened so they do not make the same mistake again. One respondent said *'the bank should have explained to me the process of how insurance works, so I do not make the same mistake again'* (respondent # 21). Several respondents reported that if their banks give them a solid and credible explanation, they would be happy with their bank's response, even though they did not get what they were expecting in the first place. One customer reported that he was expecting the bank to tell him, *'this is the answer to your complaint and we have based the decision on this'* (respondent # 19). Some examples of customers' comments regarding this matter are given in Table 4.10

Table 4.10 Examples of Quotes Relating to the Need for an Explanation

<p>- <i>I wanted to be convinced that what I was paying for was what I really bought</i> (respondent # 13)</p> <p>- <i>At least they should have told me...look you are wrong! This is what happened!</i> (respondent # 13)</p> <p>- <i>If they give you an explanation that is consistent...I would understand</i> (respondent # 14)</p> <p>- <i>If they tell you they cannot solve the problem they should give you reasonable arguments</i> (respondent # 25)</p>
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Special Support. Apart from receiving an explanation, even though their bank did not make a mistake, customers expect support from their banks to face the negative consequences of the problem that caused the complaint. Some respondents felt that banks could give their customers several alternative solutions for how to solve the problem. For instance, if a bank charges \$200 as a maintenance fee to one of its customers and the customer complains because they thought they did not have to pay this charge, the bank should not only explain to the customer why they had to pay this amount of money, but should also look for alternatives for reducing this charge. One customer mentioned that her customer services officer recommended a subscription to a particular business because this business had a special agreement with the bank: ‘*do register in the accountancy college because we have an agreement with them to give 20% off the cheque account maintenance fee*’ (respondent # 10). Examples of other respondents who reported similar views regarding this issue can be seen in the following quotes in Table 4.11.

Table 4.11 Examples of Quotes Relating to the Need for Special Support

<p>- <i>The bank should take care of customers’ worries and look for creative alternatives</i> (respondent # 9)</p> <p>- <i>We cannot do what you have asked, but...can I do something else to somehow satisfy your need that you wanted to satisfy with that product?</i> (respondent # 14)</p>
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The Bank concludes it did have a service failure. If the bank decides they had made a mistake the interviewees stated that they should respond with the following actions:

Apology. Customers expect an apology from the bank. They want to feel they are being considered by their banks and that their bank truly recognizes its mistakes. One customer mentioned that the bank apologized, but she did not think it was a sincere apology. She quoted, *'the bank manager apologized, but she asked me to deal directly with the business that was involved in the incident'* (respondent # 10). The apology is even more necessary when the service failure has provoked serious distress for the customer. Serious distress for a customer may occur when they have spent their own time solving the problem and the negative consequences that may have caused. For instance, one customer advised that the mistake the bank made caused him serious problems because his name appeared in the DICOM (Chile's national data base identifying people who are late in their financial commitments), a list from which all Chilean banks, stores, and other businesses get official information regarding their customers' financial behavior. Such a data base has the characteristic that once a person's name appears on it, it takes two years after the debt is paid off for the name to be removed. Because of the distress that the customer experienced and will continue to experience for the next two years, he was expecting, among other things, a sincere apology from his bank: *'I am expecting an apology from them'* (respondent # 15). Table 4.12 shows some examples of customers' quotations regarding this dimension.

Table 4.12 Examples of Quotes Relating to the Need for an Apology

<p>- <i>They should have said "sorry, it is our fault"</i> (respondent # 6)</p> <p>- <i>I was expecting them to say 'it was our fault and we are going to reverse the interest'</i> (respondent # 7)</p> <p>- <i>I expected an apology</i> (respondent # 17)</p> <p>- <i>They called me and they apologized</i> (respondent # 18)</p>

Explanation. Another aspect customers are expecting is a full explanation of what happened and the reasons for the service failure. Customers want to be sure that the bank knows exactly why the service failure occurred, so the problem can be fixed and prevented from happening again. For example, one respondent reported that he closed all the products he had with one bank in the way the bank requested (e.g. a letter of resignation, return of the credit cards and cheques not issued). Consequently, for the following 11 months, he did not get any information from the bank, so he assumed that all products he had with this bank were closed. However, he received a credit card statement 11 months later that established he had a debt of approximately \$5,000. He went to the bank and complained. The customer service officer checked the computer information and realized that the credit card was used every month to withdraw money and that the minimum monthly payment required by the bank was paid on time during the past 11 months. Because of this, they did not believe what the customer was telling them, but after doing a deeper search they found all of the documents that the customer had given to the bank to close all of his products. Because of the seriousness of the problem, the bank manager talked to the customer, apologized to him, told him that all the money would be returned and that all products would be closed. Nevertheless, the customer wanted an explanation for what had happened, who was using his credit card and why he did not receive a bank statement from the bank for 11 months. Despite his request, he did not get any explanation from the bank, so he gained the impression that nobody knew what was going on and, therefore, they would not be able to avoid having the same problem happen in the future. *'I wanted an explanation, but they did not know how to explain'* (respondent # 3), he said. This customer was very unsatisfied and aside from not continuing to do business with the bank, he told all of his relatives, friends and colleagues not to do business with this bank either because it was disorganized. In addition to the experience of this customer, other customers have made similar comments and some examples of their comments are shown in Table 4.13.

Table 4.13 Examples of Quotes Relating to the Need for an Explanation

- *I was expecting the precise reason* (respondent # 1)
- *I was asking to know what happened* (respondent # 4)
- *He told me exactly what the problem was* (respondent # 5)
- *Why don't they give an explanation?* (respondent # 7)

Corrections. As was mentioned earlier, customers expect their problems to be solved. When banks make a mistake, all the customers interviewed were expecting their banks to reverse their mistakes and all the negative effects related to the mistakes. For instance, one customer reported that the bank charged \$100 on his account, he complained and after three months his bank came to the conclusion that it was the bank's mistake. The bank returned the \$100 and the customer was very satisfied with that response. This customer said, *'they gave me the money back'* (respondent # 20). In this example the bank mistake did not cause additional charges for the customer so the reversal of the \$100 mistake was considered a sufficient resolution. However, if some additional charges are brought about due to the bank's mistake (e.g. interest) the customer would expect the bank to reverse those additional charges also. One customer said, *'I do not intend to pay any interest or any other expense relating to the bank's mistake'* (respondent # 2) and another one stated, *'the bank should have said we are going to pay for everything, your account is closed'* (respondent # 14). Other examples of these comments are shown in Table 4.14.

Table 4.14 Examples of Quotes Relating to the Need for Banks to Reverse their Mistakes

<p><i>-Even though it was their mistake, they charged me the interest anyway (respondent # 7)</i></p> <p><i>- It is like a chain of events that makes it difficult to reverse everything (respondent # 8)</i></p> <p><i>- They reversed the charges (respondent # 18)</i></p> <p><i>- I did not get compensation, but they reversed their mistake (respondent # 25)</i></p>

Compensation for Financial Losses. In the previous example the respondents were happy to receive their money back from the bank. However, three respondents expected more from their banks. These respondents expected compensation from their banks equivalent to the interest that was lost for not being able to use their money for a period of time. In their minds they had suffered a financial loss due to the opportunity cost of not having the money for three months. These customers expected their banks to not only reimburse their money, but to compensate them at least for the interest they may have lost on their money: *'They gave me my money back, but they did not give any interest'* (respondent # 3). These respondents were only expecting this compensation if the funds charged by the bank were deducted from their cheque accounts because they felt that if they were charged to their credit cards, it would not be a financial loss until they had to pay those charges off. Table 4.15 shows some other examples of customers' opinions reflecting this dimension.

Table 4.15 Examples of Quotes Relating to the Need for Compensation for Financial Losses

<p><i>- I had to sell shares to pay the debt (respondent # 9)</i></p> <p><i>- When there are financial losses they should compensate (respondent # 17)</i></p>
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Compensation Beyond Losses. This dimension was mentioned as important by only eight respondents, while other respondents did not expect any type of monetary compensation from their banks. '*Compensation is not that important if the problem is solved quickly*' (respondent # 17), one said.

In some extremes cases when customers have spent too much time trying to get an answer to their complaints, or the situation has not been handled in a proper manner by their bank or customer services officer, respondents expected additional compensation. Additional compensation could be expressed as a special discount on the interest rate they have to pay on a loan or a zero maintenance fee for a credit card, among others. One respondent argued, '*the bank charges you a penalty fee if you do not pay your loan on time, consequently if the bank makes a mistake, they should pay you a penalty fee or some form of compensation*' (respondent # 18).

Some other examples regarding these two positions are shown in Table 4.16.

Table 4.16 Examples of Quotes Relating to the Need for Compensation Beyond Losses

<p>It is required</p> <ul style="list-style-type: none">- <i>They will have to compensate me...being in DICOM is not for free....besides all the bother.... (respondent # 15)</i>- <i>They should have given me a discount for the time lost...they just gave the product that initially should have been given to me (respondent # 17)</i>- <i>I wanted to leave, so they told me I would not pay the maintenance fee if I stayed (respondent # 19)</i> <p>It is not required</p> <ul style="list-style-type: none">- <i>The bank manager offered me other products for free, but I told him, "no thanks" (respondent # 18)</i>- <i>I do not care about compensation ...I was interested in not having any debt on my credit card (respondent # 21)</i>- <i>I do not place any importance on compensation (respondent # 22)</i>
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Special Support. Other aspects that banks have to consider when designing mechanisms for handling complaints are the negative non-financial consequences provoked by the service failure. Some respondents felt that banks should look for

creative ways of supporting their customers in facing these problems. For instance, one respondent commented that when she opened a credit card, she told her customer service officer that she wanted the credit card to be paid automatically every month with the monthly payment being charged to her cheque account. After six months she realized that her bank had not done this and that she had incurred a very high debt. She went to the bank and complained to her customer service officer. The bank realized its mistake and reversed the interest that had been charged every month due to the unpaid balance on the credit card. Despite this, the customer needed money to pay the debt. She knew it was her responsibility, but she did not have the total amount to pay the debt at that time. As an alternative solution, *'the bank offered a loan to cover the full debt with no interest'* (respondent # 9). Other customers have mentioned similar experiences where they were also expecting special support from their banks when facing various situations. Another respondent said, *'I would have been more satisfied if they had offered me all possible products with them'* (respondent # 21). Some other examples of these opinions can be seen in Table 4.17.

Table 4.17 Examples of Quotes Relating to the Need for Special Support

<p>- <i>I want to feel that when I need the bank it is there for me</i> (respondent # 5)</p> <p>- <i>The bank should give alternative solutions to the customer: they should say, " look these are the alternatives"</i> (respondent # 9)</p>

Service Improvement. After the complaint had been resolved many respondents wanted to ensure that the service failure did not happen again in the future. One respondent was not surprised that the bank had had a service failure, *'it is not the first time that this problem happened'* (respondent # 4). The respondents were expecting a long term solution which means a change in the way the service is provided. For instance, one customer made a deposit using the wrong document due to misleading information contained in that document, thus his money was deposited in a different account causing him serious problems for some cheques he issued. Apart from the solution to the problem, he expected to see a change in the information that appeared in the document, so nobody else would make the same mistake. In this case, the bank did not do anything to change the document that was used for depositing, so he was very disappointed,

'Despite what happened with me, they have not changed the documents, so the problem might happen again' (respondent # 4).

If the information provided by complaining customers was used by banks to improve the level of service they offer to their customers, this could positively affect the bank's image in the eyes of the customer. Customers who complain are offering information regarding service failure, which means that some aspects of the service delivered could be improved. One client reported that he got a loan with a bank and that after paying several installments he received a notice saying that he was late in his financial commitment. He talked to the customer service officer who told him he would take care of the problem. After one month he got another letter saying he was late with his payments, so he called his customer service officer again. The customer service officer again told him that the situation would be solved. The situation happened several times and has not been corrected yet. In his opinion, *'the bank does not have an expert in loan issues, so any problem regarding this matter cannot be solved...they should have a specialized person in charge of that'* (respondent # 15). In addition, he mentioned that the mechanism for handling complaints should be improved because he called several times to a call center and he did not get any reply, *'Everybody would expect that if we are given a telephone number to complain, a person should reply...because a system that has a telephone connected to an answering machine is not going to work if they do not reply'* (respondent # 15). Several customers expressed similar concerns in the qualitative focused interviews and some of their comments are displayed in Table 4.18.

Table 4.18 Examples of Quotes Relating to the Need for Service Improvement

- Independent of my situation...the problem should not occur again to another person
(respondent # 10)

-They have to check their systems. I do not think they have tried to do so (respondent # 15)

- I would expect a change in the service, especially in the attention provided to customers
(respondent # 22)

Despite having a negative effect on the relationship between customers and their banks, a service failure can also lead to an improvement of the relationship between customer service officers and their customers. Some respondents interviewed commented that after the complaint incident their customer service officer had positively improved in terms of the way they treated them, *'Before, the relationship with my customer service officer used to be very impersonal, but now he calls me once a month to know if I need something or to let me know about new promotions'* (respondent # 6). Another customer advised that as a result of the complaint he thought that *'it is a good investment to complain'* (respondent # 3), so he will do it every time he feels unsatisfied with the service he is getting. This quote reaffirms the value of handling complaints in a professional manner because customers feel comfortable in complaining more and, therefore, banks would get more feedback about service failures and knowledge that could help them to continuously improve their service provisions.

With regard to banks responding to customers after they have lodged a complaint, the respondents in the qualitative focused interviews require an explanation of why or why not the mistake occurred and in some cases they require special support, such as being offered alternatives, an apology from the bank, a reversal of any mistakes, compensation either for financial losses or other inconvenience suffered and assurances that the service has been improved, so that others will not suffer from the same problem. The findings related to service recovery dimensions from the qualitative focused interviews highlight all of the above issues as being important to the relationship between retail banking customers in Chile and their banks when customers make a complaint.

Once customers have made a complaint and have gone through the service recovery experience, they may still want to switch to another bank. The next section will discuss what the respondents had to say about their 'switching behavior'.

4.3.2 Retail Banking Customers' Switching Behavior

Switching Banks

If banks do not respond efficiently to a customer's complaint, the latter may express the fact that they are very dissatisfied and want to stop doing business with the bank. Some dissatisfied customers want to switch to other banks. Customers are able to switch only if they want to switch and if it is feasible for them to switch. Barriers for customers who

want to switch from one bank to another do exist and the respondents in the qualitative focused interviews expressed their views about switching banks in various ways.

Some respondents justified their decision of not switching from their existing banks based on an opportunity cost analysis. Such analysis considers the positive attributes of the current bank that could be lost by switching, such as a higher credit limit for their credit cards. One respondent said, *'I thought about exiting the bank...I did not switch due to the network it has in Chile...its web site is very attractive...and one does not have to go to the bank'* (respondent # 22). Some respondents mentioned having a very good relationship with their customer service officer and felt it would be very difficult to find another bank where they could get the same kind of attention as they get with their current bank. One respondent expressed this as, *'I have a good relationship with my existing customer services officer...I can have access to much more...it would take time to have that kind of relationship with another bank'* (respondent # 2).

On the other hand, some respondents chose not to switch to another bank because they have a product in their existing bank that impedes them from switching, or it would be too costly to do so. For instance, one respondent reported that, *'I could not close that account...I had a loan that required me to have a cheque account with that bank...the loan was so much cheaper because I kept my account open'* (respondent # 4). Such barriers for switching are called negative switching barriers and generally have an effect only until a loan is paid off because, once the customer does not have any financial commitment to the bank, it is likely that they would exit that bank as soon as possible. This was expressed by a respondent who said that he will keep a chequing account with the bank until the loan is paid off but, *'once it is paid off I will never go back to that bank'* (respondent # 6). In some instances respondents discussed the fact that they did not have enough time to exit their banks and to search for a new one. They realize that it takes a lot of time to open a new account and that they have to do it personally because they do not have other options to open an account, such as by e-mail, phone, web site, etc. Sometimes they had decided to switch to another bank, but something happened that prevented them and after a couple of weeks they changed their mind and decided to stay at the same bank, *'I wanted to switch to another bank, however I did not have time and after some time the issue was cooling down...and then I started to see the benefits of the bank... and finally, due to lack of time, leisure, whatever, I did not switch'* (respondent # 3). Other respondents said they did not switch because they perceived all the banks as equals, so it would not be worthwhile to change to another bank, *'With all*

my experience I have full consciousness that all banks are the same, there is no difference' (respondent # 1). Table 4.19 shows additional statements reflecting this aspect of switching behavior.

Table 4.19 Examples of Quotes Relating to Switching Banks

<p>- <i>I did not switch because of the special attention I get from my customer service officer</i> (respondent # 5)</p> <p>- <i>I did not switch to another bank because I would have to change all my commitment to another bank which required too much time</i> (respondent # 7)</p> <p>- <i>You see one bank...you see them all the same</i> (respondent # 11)</p> <p>- <i>I think all banks are almost identical</i> (respondent # 13)</p> <p>- <i>I did not switch because the bank has very good technology</i> (respondent # 21)</p>
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Switching Customer Service Officers

A different aspect of customer switching behavior reported by respondents was to switch to another customer service officer. One respondent said, '*because of the complaint I did not switch to another bank, however, I asked for a new customer service officer'* (respondent #24).

In the Chilean banking industry the evaluation that customers make of a bank's service recovery efforts might have an impact on the level of trust that customers have towards their bank or their customer service officer. For example, some respondents reported that after a service failure they complained to their customer service officer who did not handle their complaints to their satisfaction. However, these respondents had talked to the bank manager, who did solve their problem almost immediately. After this incident, they were satisfied with the overall response their bank had given to their complaints, but they were not happy with their customer service officer's performance. They did not trust their customer service officer anymore, so they asked for a new customer service officer. One respondent mentioned that he was very upset with his customer service officer and told him, '*I will never trust you again...you told me not to worry and now I have this problem'* (respondent # 2), then he talked to the bank manager and reported, '*I asked for a change of customer service officer'*. Another

respondent mentioned, *'I felt a negative predisposition to that person (customer service officer)...he tried to contact me several times but I did not reply'* (respondent # 16). Due to similar reasons, respondent # 20 commented, *'the relationship with the customer service officer was over'*.

Creating Switching Barriers

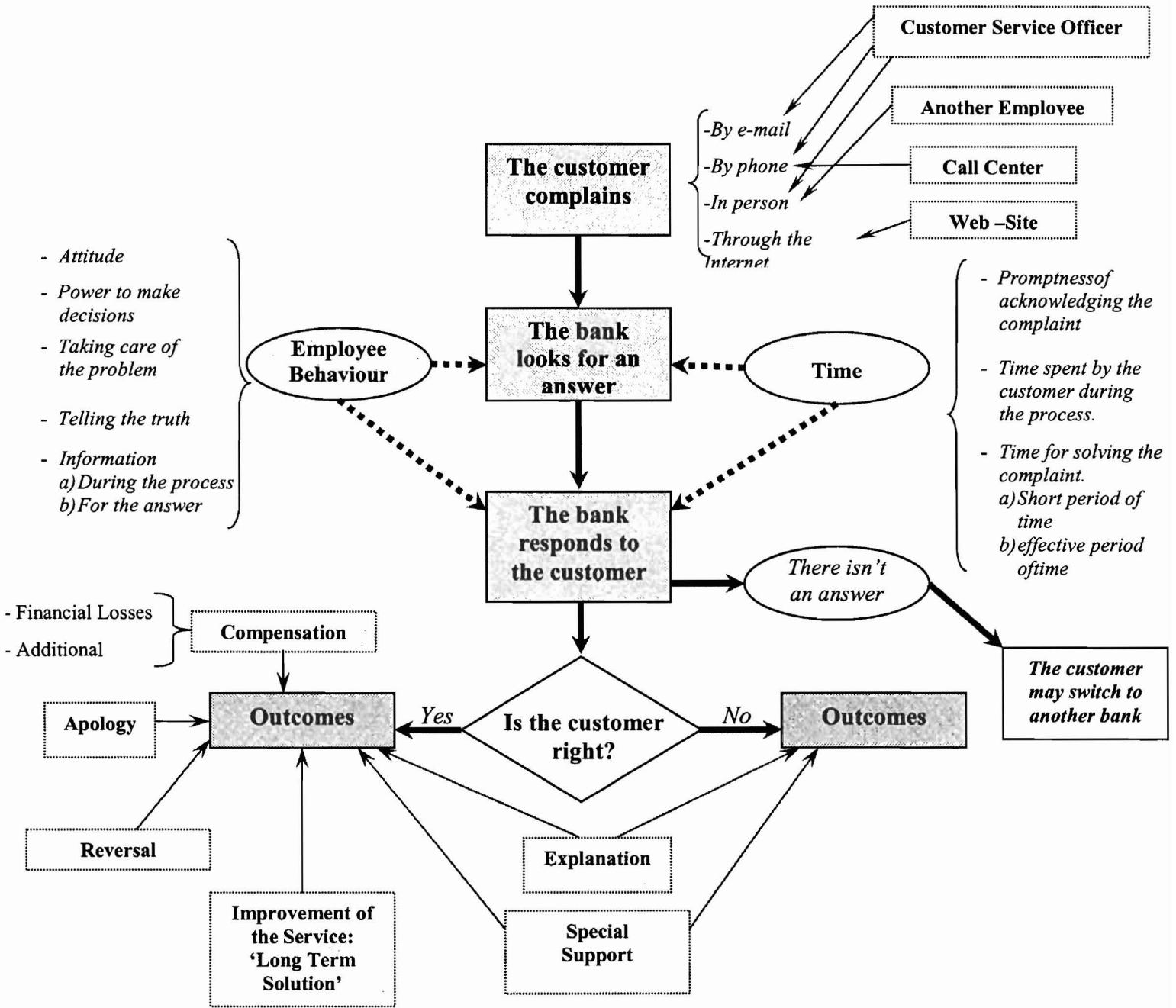
Some respondents reported that they were delighted with the way the bank handled their complaints and that they felt more attached to the bank after their complaint handling experience because they felt as if the bank really cared for them. Some of them even mentioned that after their excellent experiences, even if another bank offered them lower costs, they would not switch because they value the relationship they have with their current bank. Respondent # 14 advised, *'Even if the bank increases the cheque account maintenance fee, I would be willing to pay more in order to keep that service'*. The excellent relationship could also become a very important means of positive word-of-mouth for banks as these delighted respondents would recommend their banks to their relatives and friends, *'I have shared the experience with several people'* (respondent # 17) and another respondent commented, *'I told my experience to my wife, my brothers and sisters and other people'* (respondent # 18). On the other hand, negative experiences could provoke the opposite effect. One respondent reported that because of the way the bank handled the complaint, *'whenever I can, I talk badly about this bank'* (respondent # 5).

4.4 SUMMARY OF THE COMPLAINT PROCESS IN THE CHILEAN RETAIL BANKING INDUSTRY

The main findings of the qualitative focused interviews relative to service recovery dimensions and switching behavior that are important to the 25 Chilean retail banking customers interviewed were discussed in this chapter.

Based on this analysis, the process that customers go through from the moment they lodge a complaint until the bank responds was analyzed. The process was divided into three steps: a) the customer complains, b) the bank responds to the customer's complaint and c) the bank responds to the customer. Figure 4.1 outlines in diagrammatic form the experiences of customers during the complaint process in the Chilean retail banking industry based on the qualitative interviews.

Figure 4.1
Diagrammatic Representation of the Experiences of Chilean Retail Banking Customers
with the Complaint Process



In the first step, complaints about methods of complaining were discussed. The most typical way respondents expressed their complaints was by getting in contact with their customer service officer. Other ways of lodging complaints were complaining to another bank employee, by phoning a call center or using a virtual channel, such as the bank's website.

In the second step, the process that each bank followed to look for an answer to the complaint was discussed. In this process two important service recovery dimensions

were affecting the way customers evaluate bank service recovery efforts: employee behavior and time. In terms of the service recovery dimension of employee behavior, every time these respondents complained they wanted to be treated well, so they expected several characteristics of customer service officers, such as a) positive attitude, b) power to make decisions, c) taking care of complaints, d) telling the truth and e) providing information regarding the progress of the complaint. In terms of the service recovery dimension of time, respondents expected banks to acknowledge the complaint and to solve it in a relatively short period of time. Respondents also wanted to know how long it would take to solve the complaint and were willing to wait for a longer period of time if customer service officers told them exactly when the complaint would be resolved and that it was actually resolved on time.

In the third step, different bank responses to customers' complaints were discussed. Even if the bank did not actually have a service failure, the respondents expected an explanation and, in some special circumstances, they expected support from their banks to face the negative consequences of their own mistakes. If it was proven that the bank did have a service failure, customers expected an apology, an explanation as to what had happened, a reversal of all the negative effects of the service failure and in some cases they expected compensation. Finally, respondents expected banks to learn from their mistakes and improve the service offered, so mistakes do not happen again in the future.

In terms of switching behaviors, the qualitative phase showed that the 25 Chilean respondents chose to switch or not switch banks when they do not respond satisfactorily to customer complaints. The study showed that there are at least two reasons why respondents did not switch to another bank even if they were dissatisfied with the level of service received from their bank. Firstly, respondents said they had a product that inhibited them from switching, or they did not perceive another bank as an attractive alternative, and secondly, they valued the relationship they had with their existing bank to the point that they chose not to switch.

The study also showed a different type of switching behavior, which is switching to another customer service officer. Some respondents said they did not want to switch to another bank, however, they did not want to continue being served by the same customer service officer and, consequently, they asked for another one.

Based on the conclusions drawn from the analysis of the qualitative focused interviews, several dimensions of service recovery and switching behavior were shown

to be important and meaningful to the 25 Chilean retail banking customers interviewed. These dimensions will now be taken into the quantitative phase of the study so that their validity and reliability can be assessed with a representative sample of Chilean retail banking customers.

In the next chapter, the questionnaire design which included all the service recovery dimensions and switching barriers obtained from the qualitative focused interviews and others obtained from the literature review will be discussed. Chapter Five also discusses the results of the surveys that were done to purify the scales used to measure service recovery and switching barriers and presents the hypotheses for the quantitative phase of the study.

CHAPTER 5: MODEL DEVELOPMENT AND RESEARCH PROPOSITIONS

5.1 INTRODUCTION

The previous chapter discussed the main findings from the qualitative focused interviews, particularly the themes that arose from those interviews from the respondents' perspectives. The qualitative interviews were undertaken prior to the quantitative phase to determine which service recovery dimensions and switching behaviours were meaningful and important to Chilean retail banking customers. The discussion in this chapter presents the development of a model for the relationship between those service recovery and switching barriers dimensions. The model aimed to determine the dimensions that were related to both service recovery and switching barriers and to determine:

- a) Whether there were positive or negative relationships between service recovery evaluation overall and each service recovery dimension that came out of the qualitative interviews.
- b) The relationship between the service recovery evaluation construct to each switching barriers dimension that came out of the qualitative interviews.

The way in which these dimensions were operationalized and the process that was used to purify both scales that measure service recovery and switching barriers will also be explained in this chapter. A summary of the model under study used to inform the quantitative research phase of the study is then presented and a series of hypotheses that emerge from the model to be tested with quantitative statistics are provided towards the end of the chapter.

5.2 OPERATIONALIZATION OF CONSTRUCTS

As established by Churchill (1979) and Parasuraman et al. (1988), the first three steps that must be followed when designing a measurement instrument for quantitative research are firstly, to define the construct, secondly, to identify the likely dimensions relevant to the construct and finally, to generate questionnaire items tapping those dimensions.

The way in which the construct for this study was operationalized is explained in this section. First the operationalization of the concept service recovery is discussed followed by the operationalization of the switching barriers concept.

5.2.1 Service Recovery

To measure the service recovery efforts of banks this study considered 24 potential service recovery dimensions. These dimensions were taken from the results of the literature review as well as the qualitative focused interviews (n=25). The qualitative focused interviews conducted with 25 Chilean retail bank customers revealed 15 service recovery dimensions, while from the literature review seven additional dimensions were obtained. Table 5.1 shows all the service recovery dimensions considered in this investigation and also displays a description of each dimension and its source.

Table 5.1 Service Recovery Dimensions and Definitions

Dimensions	Description	Source
- Promptness of Acknowledging the Existence of the Complaint	Time spent by the bank to acknowledge a customer's complaint.	Qualitative focused interviews
- Time Spent by the Customer during the Complaint Process	Time spent by a customer looking for a solution to the complaint.	Qualitative focused interviews
- Time for Solving the Complaint	Time taken by the bank to get an outcome of the complaint.	Qualitative focused interviews
- Effort put by the Customer during the Complaint Process	Effort put by a customer looking for a solution to the complaint	Qualitative focused interviews
- Information during the Process of the Complaint	Information given to a customer to let him/her know how the complaint is progressing.	Qualitative focused interviews
- Information for the Outcome of the Complaint	Information given to a customer to let him/her know the outcome of the complaint.	Qualitative focused interviews
- Process Control	Customer's freedom to communicate views on a decision process (Tax and Brown, 1998).	Literature Review
- Decision Control	Extent to which a person is free to accept or reject a decision outcome (Tax and Brown, 1998).	Literature Review
- Facilitation /Accessibility	Ease of engaging a process (Tax and Brown, 1998).	Literature Review
- Flexibility	Adaptability of procedures to reflect	Literature

	individual circumstances (Tax and Brown, 1998).	Review
- Power to Make Decisions	Power of an employee to make decisions regarding complaints.	Qualitative focused interviews
- Attitude of the Customer Service Officer	Individual attention given to, listening to and caring for the customer.	Qualitative focused interviews
- Taking Care of the Problem	Efforts made by the bank to look for a solution to the complaint.	Qualitative focused interviews
- Telling the Truth	Perceived honesty of a bank's employees.	Qualitative focused interviews
- Politeness	Well-mannered, courteous behavior (Tax and Brown, 1998).	Literature Review
- Tangibles	Perceived employees' way of dressing and job environment (Boshoff, 1999).	Literature Review
- Communications Skills	Employee's ability to communicate with their customers (Boshoff, 1999).	Literature Review
- Explanation	Provision of reason as to why the service failure happened (or did not happen).	Literature Review and Qualitative focused interviews
- Apology	Sincere and genuine regret for the service failure and its negative consequences	Literature Review and Qualitative focused interviews
- Corrections	Reversing all the negative consequences of bank service failures.	Literature Review and Qualitative focused interviews
- Compensation for Financial Losses	Monetary compensation given to customers because of the financial losses originated because of a bank's service failure.	Qualitative focused interviews
- Compensation Beyond Recovery of Losses	Monetary or non-monetary compensation given to a customer because of all the effort and time he/she put into looking for a solution to the complaint.	Qualitative focused interviews
- Special Support	Support given by a bank to a customer when facing the consequences of a service failure.	Qualitative focused interviews
- Long Term Solution	Changes in the service provision to ensure that the mistake does not occur again.	Qualitative focused interviews

Each of these dimensions was measured using three scale items as suggested by Walsh (1990). This number is the minimum of variables a factor should have and several researchers have used this number of scale items per dimension in their studies (e.g. Boshoff, 1999; Estelami, 2000; Davidow, 2003). The questionnaire scale items that were used to measure each of the service recovery dimensions were either replicated from the studies undertaken by several researchers (Boshoff, 1999; Davidow, 2000, 2003; Estelami, 2000; Tax and Brown, 1998) or were written by the researcher based on the qualitative interviews (see Table 5.1 for more specific information regarding the source of the scale items). In addition, 12 global evaluations were considered in the questionnaire (three scales measured global service recovery evaluation; three measured global procedural fairness; three measured global interactional fairness; and three global distributive fairness), which allowed testing the relationship between the service recovery dimensions and the global service recovery evaluation. These scale items were replicated from the study done by Davidow (2000).

In sum, 84 scale items were including in the questionnaire: 72 of them measured the 24 service recovery dimensions under study and 12 were global measures. Appendix 2A shows the final questionnaire that was used in the investigation. In part one of that questionnaire the scale items that were used in this study for each dimension that needed to be measured can be appreciated.

5.2.2 Switching Barriers

In this study the switching barriers were defined as any factor that made it difficult or costly for customers to change providers according to Jones et al.'s (2000) definition.

Considering the results of the literature review and qualitative focused interviews, switching barriers were divided into five dimensions. Table 5.2 shows these five dimensions.

To operationalize these dimensions, scale items developed by past researchers were used. First, the scale items developed by Aldlaigan and Buttle (2005) were used for the first three switching barrier dimensions. They divided the scale item into three dimensions: organizational credibility, relational values and value congruency. Second, to measure the last two switching barrier dimensions, scales items gathered from the studies done by Julander and Solander (2003) and Colgate and Lang (2001) were used.

These researchers proposed to divide scale items into two groups: switching costs and lack of attractiveness of alternatives. Appendix 2A shows the questionnaire that was used in this research. Part two of that questionnaire shows the scale items employed in this study to measure switching barriers.

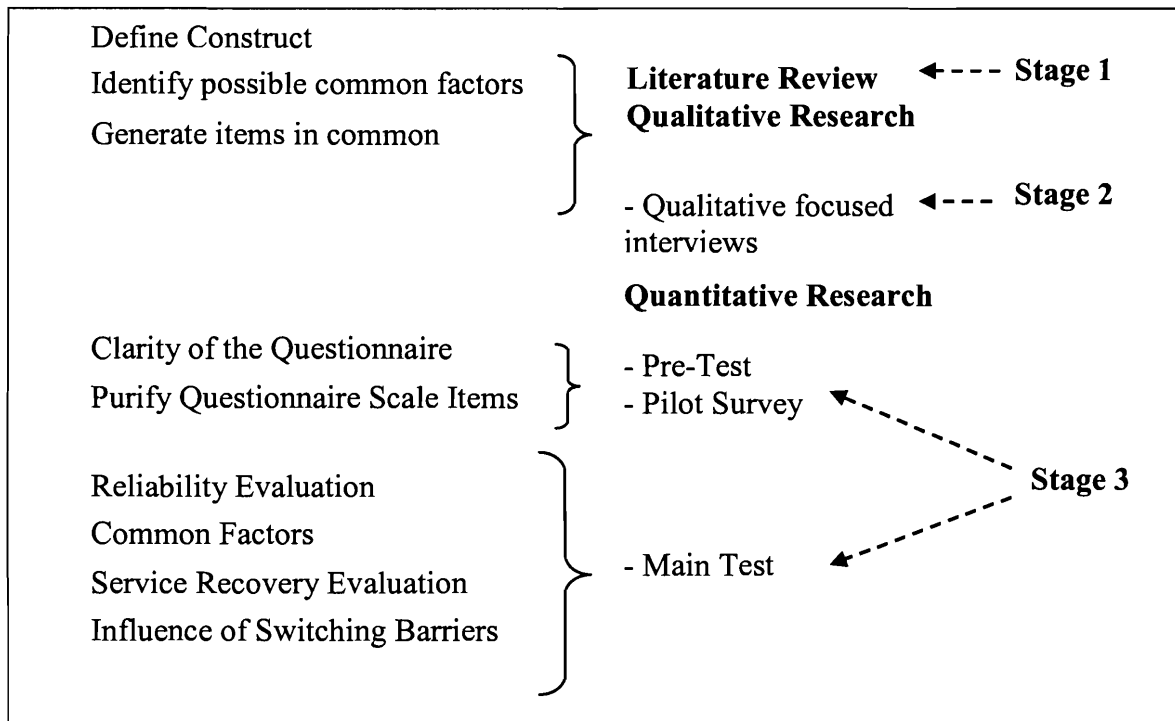
Table 5.2 Switching Barriers Dimensions and Definitions

Dimensions	Description	Source
Organizational Credibility	Refers to the level of trust that customers have with their current banks (Aldlaigan and Buttle, 2005).	Literature Review
Relational Values	Considers the personal relationship between customers and bank employees (Aldlaigan and Buttle, 2005).	Literature Review and Qualitative focused interviews
Value Congruency	Refers to the congruency of values between customers and their banks (Aldlaigan and Buttle, 2005).	Literature Review
Switching Costs / Difficulties of Switching	Customers' perceptions of the time, money, and effort associated with changing service providers (Jackson, 1985; Jones et al., 2000; Kim et al., 2003; Ping, 1993).	Literature Review and Qualitative focused interviews
Lack of Attractive Alternatives	Refers to customer perceptions regarding the extent to which viable competing alternatives are available in the market place (Jones et al., 2000).	Literature Review and Qualitative focused interviews

5.3 QUESTIONNAIRE DESIGN AND SCALE PURIFICATION

As explained in Chapter Three, several steps were followed in designing the questionnaire. Figure 5.1 summarizes in diagrammatic form all of the stages followed to design the questionnaire and to purify the scales that measure service recovery and switching barriers.

Figure 5.1 Activities to Design the Service Recovery and Switching Barriers Measurement Instrument and to Determine the Relationship Between Service Recovery and Switching Barriers



5.3.1 Pre-Test Survey Findings

The questionnaire designed for the quantitative phase of the study was first administered to 25 customers from the retail banking industry to check for issues that could have negatively affected its application. Once the questionnaire was administered, respondents were asked their opinion regarding the questionnaire. Based on those opinions three problems were discovered and hence, some modifications were made to the questionnaire. These issues were as follows:

- a) The first part of the questionnaire was written in the first person and most of the respondents mentioned that they preferred to have those items in the second person. For instance, the first item of this part of the questionnaire was, *“The opportunity that the bank gave me to tell my side of the story”* and it was changed to, *“The opportunity that the bank gave you to tell your side of the story”*.
- b) The first part of the questionnaire had 84 items and respondents mentioned that during the process of evaluating each of these items, they tended to forget

exactly what they were evaluating. To avoid this problem, the first part of the questionnaire was divided into three sections and after each section the following message was given to respondents, “*We remind you that you are evaluating the last time you complained to a bank*”.

- c) Several Likert-type scales were used in the questionnaire and respondents argued that it was difficult for them to remember the appropriate scale when evaluating each item of the questionnaire (this was orally delivered). To avoid this problem, cards were designed. On each card the scale that had to be used to answer a particular question, was written in extra large font.

5.3.2 Pilot Survey

As discussed in Chapter Three, a pilot survey was conducted to purify the scales that measured service recovery and switching barriers. In this survey 360 retail banking customers who had complained to a bank were surveyed because of data analysis considerations (see Chapter Three).

In this section of the chapter the pilot survey details are explained. First, fieldwork issues are discussed, then respondents’ demographics are shown and lastly, the main findings of the pilot survey are summarized and explained. The impact of those findings on the design of the final questionnaire that was used in the main survey stage is also discussed.

Respondent Characteristics in the Pilot Study

As mentioned earlier, respondents were selected either in the foyer of a bank or when they were entering or exiting a bank. The demographics of customers who participated in the pilot survey are displayed in Table 5.3. The table shows a close percentage of women and men in the sample, which is reasonably similar to gender distribution in Chile (INE, 2002). In terms of level of education, approximately 67% of the respondents had at least university undergraduate education and 26% had university post graduate education showing the high level of education of the people who comprised the sample compared to the general population in Chile. The percentage of the Chilean population that has either undergraduate or postgraduate education is only 16.4% (INE, 2002). Such a high level of education in the sample may reflect the type of

industry and product that the study was dealing with, which in Chile covers the high and medium social economic classes. Regarding the banks where respondents made their complaints, 79% of the customers complained to the four most important Chilean banks: Estado Bank, Santander/Santiago Bank, BCI Bank and BBVA Bank. In terms of the products these customers had (have) with these banks, 43% of them had at least a chequing account, 29% had an ATM debit card, 19% had a credit card, 15% had a credit line, 14% had a loan and 4% had some type of investment. From Table 5.3 it can also be concluded that most respondents had at least one product with their bank for an average of six years.

TABLE 5.3 Respondents Characteristics

Item	Characteristic	Number	Percentages
Gender	Male	184	51.1
	Female	176	48.9
Level of Education	Primary School	3	0.9
	High School	117	32.4
	University Undergraduate	147	40.8
	University Post-graduate	93	25.9
Bank Involved in the Complaint	Estado Bank	193	53.6
	Santiago Bank	46	12.8
	Chile Bank	26	7.2
	BCI Bank	19	5.3
	BBVA Bank	15	4.2
	Corpbanca Bank	14	3.9
	Falabella Bank	7	1.9
	Edwards Bank	7	1.9
	Desarrollo Bank	5	1.4
	Others	28	7.8
Products with that Bank	Chequing Account	156	43.3
	ATM Debit Card	104	28.9
	Credit Card	30	19.2
	Credit Line	54	15.0
	Loan	49	13.6
	Investments	15	4.2
Number of Years of being a Customer	Average	6.15 years (2.5 standard deviation)	

Pilot Survey's Main Findings

The main findings of the pilot survey conclusions relative to service recovery are discussed first and then the main findings relative to switching barriers are explained.

Service Recovery

To purify the service recovery scales, a series of exploratory factor analyses was performed using Principal Components and Varimax rotation as explained in Chapter Three. In each of the steps followed to purify the scale that measured service recovery, several scale items were deleted and after each step a new exploratory factor analysis was performed. Table 5.4 shows a summary of the process followed to purify the scale that measured service recovery. The table shows that the initial factorial solution had twelve (12) factors and that the last one had only six (6) factors. In addition, it can be seen that 19 scale items were deleted due to having loading values below 0.4 with all factors; 23 scale items were removed due to not having discriminant validity; and 2 scale items were deleted because the factor that contained them had poor internal consistency reliability.

TABLE 5.4 Process Followed for Purifying the Scale that Measures Service Recovery

Nº	Variables or Factor Deleted	Reason	Number of Factors
1		Initial solution	12
2	sr16, sr30, sr32, sr33, sr42, sr45, sr52, sr64, sr81	Loading values below 0.4	12
3	F11, F12	Factors with only 1 scale item	12
4	sr3, sr4, sr9, sr18, sr25, sr41, sr46, sr59, sr73, sr77, sr80	No discriminant validity	10
5	sr11, sr24, sr36, sr47, sr74	Loading values below 0.4	9
6	sr6, sr13, sr31, sr39, sr43, sr44, sr60, sr71,	No discriminant validity	8
7	sr2, sr40	Loading values below 0.4	8
8	F8	Factor with only 1 scale item	7
9	sr14, sr53	Loading values below 0.4	7
10	sr1, sr15, sr69, s70	No discriminant validity	7
11	F7	Factor 7 had low Cronbach alpha	7
12	s58	Loading values below 0.4	6
		Final solution	6

In terms of the final solution to the exploratory factor analysis, this contained twenty nine (29) scale items divided into six factors, all of them with eigenvalues higher than one. Loading values ranged from 0.57 to 0.78. Cronbach's alphas for the different

underlying factors ranged from 0.81 to 0.94, which means that they were highly reliable. Altogether, they explained 61% of the total variance which is considered good for an exploratory study (Garson, 2006). The final loading pattern is shown in Table 5.5.

TABLE 5.5 Final Exploratory Factor Analysis Solution for the Service Recovery Construct

Scale Items	FACTORS					
	1	2	3	4	5	6
sr.75 The explanation given by the bank regarding why the problem happened	.71					
sr.84 The efforts made by the bank to avoid the problem happening again	.67					
sr.56 The changes made by the bank to ensure that the mistake does not happen again	.66					
sr.21 Reversing the negative consequence of the bank mistake	.60					
sr.28 The improvement in the service due to the complaint	.60					
sr.19 The explanation given by the bank regarding the causes of the service failure	.59					
sr.49 Reversing the service failure and its consequences	.57					
sr.51 The compensation given by the bank due to all the bother you had to go through due to the complaint		.78				
sr.78 The compensation given to you to cover your financial losses		.75				
sr.79 The compensation given by the bank due to all the time you spent looking for a solution to your complaint		.73				
sr.22 The compensation given by the bank due to your financial losses		.68				
sr.23 The compensation given by the bank due to all the effort you had to put in due to the complaint		.68				
sr.50 The way in which the bank handled the financial losses you had because of the bank mistake		.61				
sr.62 The time you spent looking for a solution to your complaint			.68			
sr.63 The effort you had to put into looking for a solution to your complaint			.68			
sr.34 The time you had to spend to solve the problem			.66			
sr.35 The effort you had to put into solving the problem			.65			
sr.7 The effort you had to put into finding a solution to your problem			.60			
sr.68 The respect with which you were treated by bank employees				.68		
sr.67 The truthfulness of the bank employees				.64		
sr.72 Bank employees clarity when communicating with you				.62		
sr.29 The way the bank gave you an opportunity to give your opinion regarding the complaint				.60		
sr.57 The opportunity the bank gave you to express your opinion about the complaint				.58		
sr.5 The speed with which your complaint was solved					.70	
sr.61 The time taken by the bank to acknowledge the complaint					.65	
sr.8 The speed with which the bank answered your complaint					.59	
sr.65 A reduced number of employees handling your complaint						.70
sr.37 A reduced number of employees to whom you had to complain to solve your problem						.69
Explained Variance (Rotated Factors)	16.12	11.03	9.79	8.62	8.38	6.76
Total Explained Variance	16.12	27.15	36.94	45.56	53.94	60.70
Internal Consistency Reliability	0.94	0.92	0.83	0.84	0.81	0.84

Factors Labeling Considering the content of different scale items aligned to each factor, labels were given to all the factors. A brief explanation of the name for each label is given next.

Factor 1: Reversing Bank Mistakes. This factor is related to the actions banks took to reverse not only the service failure that happened with one particular customer, but also with the correction made to the service delivery in general and to ensure the mistake does not happen again. Customers expect an explanation as to why the service failure happened because this would be an indication that the banks know the cause of the problem and would, therefore, be able to fix it.

Factor 2: Customer Compensation. This factor includes the three broad different types of compensation that customers expect from their banks. Firstly, for their financial losses due to the bank's mistake, secondly, due to the time they had to wait while the bank was looking for a solution to their complaints and finally, due to all the bother they experienced brought about by the complaint.

Factor 3: Customer Time and Effort. This factor is relative to the time and effort customers have to expend to get a solution to their complaint. This is the only factor that refers directly to the participation of customers when looking for a solution to their complaints, rather than just the behavior of the bank employees.

Factor 4: Treatment of Customer. This factor contains quotes relating to employee behavior when handling complaints. Customers expect employees to behave with honesty, courtesy and show concern for customers' problems and also to project positive energy to customers when solving the problem. Employees should also listen to the customer's side of the story.

Factor 5: Complaint Handling Time. This factor relates to the time banks take to acknowledge their customers' complaints and the time banks take to present a solution to their customers.

Factor 6: Bank employees' power to make decisions. This factor refers to the power bank's employees have to make decisions regarding complaints. Customers expect to talk to a minimum number of employees when looking for a solution to their complaints. They do not want to be sent from one employee to another.

The six factors were labeled so as to expediate the discussion of them in the results section of the thesis.

Switching Barriers

This analysis showed the existence of five factors with eigenvalues higher than 1.0. These factors explained 66.8% of the total variance altogether and all scale items had high loading values, with only one factor ranging from 0.52 to 0.84. Cronbach's alphas were higher than 0.70 for the five factors and ranged from 0.79 to 0.91 (internal consistency reliability). Table 5.6 displays the final factor loading pattern.

TABLE 5.6 Final Exploratory Factor Analysis Solution for the Switching Barriers Construct

Scale Items	FACTORS				
	1	2	3	4	5
swbarrier.11 I have every confidence in this bank	.84				
swbarrier.10 I feel secure in the hands of this bank	.76				
swbarrier.12 I trust this bank	.76				
swbarrier.16 This bank is a very credible bank	.75				
swbarrier.15 This bank is reliable	.72				
swbarrier.14 This bank caters well to my financial needs	.70				
swbarrier.13 I respect this bank	.70				
swbarrier.17 This bank gives good value for money	.52				
swbarrier.28 I receive preferential treatment from this bank		.72			
swbarrier.24 I approve of this bank's investment policy		.70			
swbarrier.29 I feel a sense of loyalty to this bank		.65			
swbarrier.25 I share the same values as this bank		.64			
swbarrier.26 I have confidence that this bank provides the best deal		.63			
swbarrier.27 This bank knows my needs		.60			
swbarrier.23 I support the ethical policies and practices of this bank		.60			
swbarrier.2 It is difficult for me to use other banks			.79		
swbarrier.3 It would be difficult for me to switch to another bank			.75		
swbarrier.6 I feel locked into this bank			.64		
swbarrier.9 Alternatives Attractiveness				.64	
swbarrier.7 All banks are the same				.61	
swbarrier.8 If I were to choose another bank I do not know what I will get				.59	
swbarrier.1 There are few other banks that are realistic alternatives for me.				.57	
swbarrier.22 I have got a good rapport with employees of this bank					.78
swbarrier.20 I like the employees in this bank					.74
swbarrier.19 I know the employees of this bank					.71
swbarrier.18 I like to build relationships with the employees at this bank					.70
swbarrier.21 I enjoy being recognized at this bank					.70
Explained Variance (Rotated Factors)	18.15	14.18	11.72	11.30	11.53
Total Explained Variance	18.15	32.33	44.05	55.35	66.88
Internal Consistency Reliability	0.91	0.85	0.73	0.75	0.83

Switching Barriers Factor Labels Each factor contains different scale items and after considering those scale items, a name was given to each factor. A brief explanation of these factors is given next.

Factor 1: Organizational Credibility. This factor relates to the level of trust that customers have toward their current banks. Higher levels of trust and credibility will reflect greater customer attachment to their current bank, making it more difficult for them to want to switch.

Factor 2: Value Congruency. This factor refers to the congruency of values between customers and their banks. Should customers share similar values, ethical principles and policies of investment among other things with the bank, customers would have a high level of attachment with their current bank making it more difficult for them to engage in switching behavior.

Factor 3: Switching Costs/Difficulties of switching. This factor relates to the level of difficulty in switching to another bank. Customers may want to switch to another bank but it may be difficult for them to do so. They could have a product that does not allow them to switch to another bank.

Factor 4: Lack of Attractiveness of other Alternatives. This factor refers to the lack of other attractive alternatives for customers in the market. Customers may not switch to another bank because they perceive that there is not another bank in the market that can offer the high quality services they require.

Factor 5: Relational Values. This factor refers to the personal relationship between customers and bank employees. Customers want to be recognized by their customer service officer and they want to be treated well. Excellent relationships may lead to customers valuing their current banks more highly and consequently making it more difficult for customers to switch to another bank.

Pilot Survey Overall Conclusion

After taking into account all the findings shown earlier, the questionnaire underwent several modifications. The number of scale items in the first part was reduced from 84

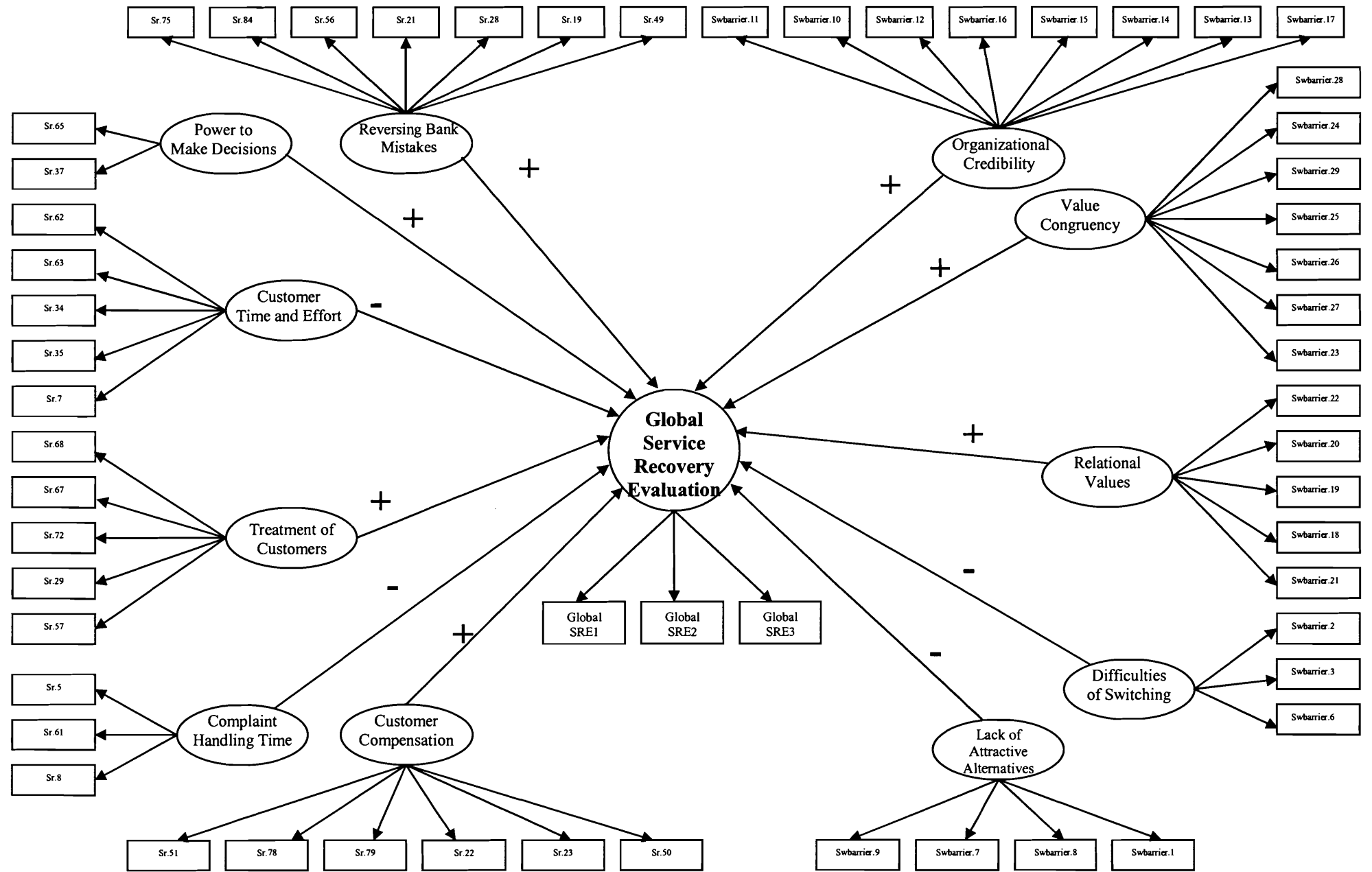
to 40 (28 measured the service recovery dimensions and the other 12 were global evaluations). The scale items in part one, question six, also underwent some changes to the wording. Furthermore, the second part of the questionnaire contained 27 scale items instead of 29. In terms of the length of the questionnaire, this was reduced from 8 pages to 6 pages which meant a shorter time for questionnaire completion in the main survey.

5.4 SUMMARY OF THE MODEL UNDER INVESTIGATION

The overall aim of the research was to determine the important dimensions from a customer's perspective related to service recovery evaluation and switching barriers in the Chilean retail banking system. To do so, dimensions that generated satisfaction and dissatisfaction regarding complaint handling had to be determined. The dimensions related to switching barriers also needed to be established and finally, the relationship between service recovery and switching barriers was also deemed an important objective of the study.

Based on the literature review and the qualitative focused interviews, a questionnaire was designed to measure service recovery evaluation and switching barriers. A pre-test was then undertaken and based on the conclusions of this test the questionnaire underwent several modifications. A pilot survey was conducted with the aim of purifying the scales that measured service recovery and switching barriers. The pilot survey showed that the service recovery evaluation construct comprised six different factors and the switching barriers construct comprised five factors. To measure global service recovery evaluation, three scale items were considered in the study (e.g. global evaluation 1, 2 and 3). Figure 5.2 displays the different factors or dimensions associated with the service recovery and switching barriers constructs. Each of these dimensions included a certain number of scale items based on the result of the exploratory factor analysis shown earlier. The figure also shows the relationships between service recovery evaluation and switching barriers that are to be tested as part of the second major research objective. The + or - sign indicates the positive or negative relationship that is expected when the relationships are measured. These expectations are the basis for the establishment of the research hypotheses that will be discussed in the next section of this chapter.

Figure 5.2 The Relationship Between Service Recovery Evaluation and Switching Barriers



5.5 RESEARCH HYPOTHESES

In Chapter Two the research objectives were presented. In this section seven hypotheses are established in order to answer the research objectives based on the results of the literature review, qualitative focused interviews and/or pilot survey. The seven hypotheses will go on to be measured in the main survey of the thesis presented in Chapter Six.

5.5.1 Research Question 1. Developing and Evaluating the Construct of Service Recovery Evaluation (SRE).

This objective relates to the dimensions that comprise the construct of service recovery evaluation. The results of the pilot study showed that the construct of service recovery evaluation is composed of six factors that are reliable and important in the minds of customers. Hence, a hypothesis was established on the basis of those six factors.

Hypothesis 1: The six service recovery dimensions will be confirmed in a new sample.

Hypothesis 1a: Reversing bank mistakes is confirmed in a new sample.

Hypothesis 1b: Customer compensation is confirmed in a new sample.

Hypothesis 1c: Customer time and effort is confirmed in a new sample.

Hypothesis 1d: Treatment of the customer is confirmed in a new sample.

Hypothesis 1e: Complaint handling time is confirmed in a new sample.

Hypothesis 1f: Employees' power to make decisions is confirmed in a new sample.

Regarding the evaluation of service recovery efforts, the results of the qualitative interviews and pilot survey showed no differences in service recovery evaluation on the basis of type of bank, gender or level of education. Hence, another hypothesis was established.

Hypothesis 2: The service recovery evaluation will show no differences on the basis of type of bank, gender or level of education.

Hypothesis 2a: The service recovery evaluation will show no differences on the basis of type of bank.

Hypothesis 2b: The service recovery evaluation will show no differences on the basis of gender.

Hypothesis 2c: The service recovery evaluation will show no differences on the basis of level of education.

5.5.2 Research Question 2. Relationship between Service Recovery Dimensions and Global Service Recovery Evaluation.

This objective relates to the relationship between the service recovery dimensions and global service recovery evaluation. In consideration of the results of the literature review, qualitative interviews and the pilot survey, positive and negative relationships are expected between the service recovery dimensions and global service recovery evaluation. Based on this information, the following hypothesis was established.

Hypothesis 3: Service recovery dimensions will systematically relate to global service recovery evaluation.

Hypothesis 3a: Reversing bank mistakes increases global SRE.

Hypothesis 3b: The higher the customer compensation, the higher the global SRE.

Hypothesis 3c: The greater the customer time and effort, the lower the global SRE.

Hypothesis 3d: The better the treatment of the customer, the higher the global SRE.

Hypothesis 3e: The quicker the complaint handling time, the lower the global SRE.

Hypothesis 3f: The greater the employees' power to make decisions, the higher the global SRE.

5.5.3 Research Question 3. Trade-offs and Effects of Different Levels of Customer Time, Complaint Handling Time and Complaint Outcome on Service Recovery Evaluation.

The qualitative research (qualitative focused interviews) shown in Chapter Four revealed that customers anticipate a holistic approach from their banks when dealing with complaints. Customers expect several actions from their banks, such as a short complaint handling time, the correction of bank mistakes and compensation. Similarly, the literature shows that there is an interaction among the service recovery dimensions (Blodgett et al., 1997; Boshoff, 1997; Goodwin and Ross, 1992; McCollough et al., 2000; Sparks and McColl-Kennedy, 2001; Sparks and Callan, 1995; Sparks and Callan, 1996; Sparks and Bradley, 1997) whilst other researchers have shown that there is not an interaction between the service recovery dimensions (Sparks and McColl-Kennedy, 1998; Megehee, 1994; Ruyter and Wetzels, 2000).

As explained in Chapter Three, the investigation used a scenario technique to determine the trade-offs and effects of different levels of customer time, complaint

handling time and complaint outcome on service recovery evaluation. Based on this, the following hypothesis was established:

Hypothesis 4: Different levels of Customer Time, Complaint Handling Time and Complaint Outcome will produce different trade-offs and effects on SRE.

Hypothesis 4a: There will be a three-way interaction between customer time, complaint handling time and complaint outcome as they influence global SRE.

Hypothesis 4b: There will be a two-way interaction between customer time and complaint handling time as they influence global SRE.

Hypothesis 4c: There will be a two-way interaction between customer time and complaint outcome as they influence global SRE.

Hypothesis 4d: There will be a two-way interaction between complaint handling time and complaint outcome as they influence global SRE.

5.5.4 Research Question 4. Developing and Evaluating the Construct of Switching Barriers.

This objective refers to the dimensions that comprise switching barriers. Based on the results of the literature review, qualitative interviews and results of the pilot survey, switching barriers was divided into five dimensions. Taking this into consideration, one more hypothesis was established:

Hypothesis 5: The five switching barriers dimensions will be confirmed in a new sample.

Hypothesis 5a: Organizational credibility is confirmed in a new sample.

Hypothesis 5b: Relational values are confirmed in a new sample.

Hypothesis 5c: Value congruency is confirmed in a new sample.

Hypothesis 5d: Lack of attractive alternatives is confirmed in a new sample.

Hypothesis 5e: Difficulties of switching is confirmed in a new sample.

In terms of the level of agreement regarding the presence of switching barriers, the results of the qualitative interviews and pilot survey showed no differences on the basis of type of bank, gender or level of education. Hence, another hypothesis was established:

Hypothesis 6: The level of agreement regarding the presence of switching barriers will show no differences on the basis of type of bank, gender or level of education.

Hypothesis 6a: The level of agreement regarding the presence of switching barriers will show no differences on the basis of type of bank.

Hypothesis 6b: The level of agreement regarding the presence of switching barriers will show no differences on the basis of type of gender.

Hypothesis 6c: The level of agreement regarding the presence of switching barriers will show no differences on the basis of level of education.

5.5.5 Research Question 5. Linking the Constructs of Service Recovery Evaluation and Switching Barriers.

As discussed in Chapter Two, the relationship between service recovery and switching barriers has not been deeply studied. Valenzuela et al. (2005) showed there is a positive relationship between positive switching barriers (e.g. organizational credibility, relational values and value congruency) and service recovery evaluation, while there is a negative relationship between negative switching barriers (e.g. lack of attractive alternatives and difficulties of switching) and service recovery evaluation. Considering these results, one more hypothesis was established:

Hypothesis 7: Service barriers will systematically relate to global service recovery evaluation.

Hypothesis 7a: The stronger the organizational credibility, the higher the SRE.

Hypothesis 7b: The stronger the relational values, the higher the SRE.

Hypothesis 7c: The stronger the value congruency, the higher the SRE.

Hypothesis 7d: The stronger the lack of attractive alternatives, the lower the SRE.

Hypothesis 7e: The stronger the difficulties for switching, the lower the SRE.

5.6 SUMMARY

In this chapter the overall conceptual model and research hypotheses were described. Firstly, the operationalization of service recovery and switching barriers was discussed. From the analysis of the literature and of the qualitative interviews, service recovery was shown to comprise 22 service recovery dimensions and switching barriers were shown to have five dimensions. The different stages followed in designing the questionnaire for the quantitative phase of the research were then discussed. Special attention was given to the pre-test and pilot survey, which facilitated the purification of the measurement instrument for measuring service recovery and switching barriers.

Based on the conclusions of these two studies, the questionnaire was modified and simplified from eight to six pages in length, in order to facilitate the respondents' completion of the survey. The dimensions that measured the constructs of service recovery and switching barriers arose from the literature review and qualitative interviews. Service recovery ended up having six dimensions: reversing bank mistakes, customer compensation, customer time and effort, the treatment of customers, complaint handling time and bank employees' power to make decisions. Switching barriers was composed of five factors. They were: organizational credibility, value congruency, relational values, difficulties of switching and lack of attractive alternatives. Once the final dimensions of service recovery and switching barriers were discussed, a summary of the model under study was presented. In this model the dimensions related to both constructs under study, that is service recovery and switching barriers, were shown. The relationship between these two constructs was also presented. Seven working hypotheses were then developed based on the results of the literature review, qualitative interviews and the pilot survey. These hypotheses will go on to be measured in the main survey of the thesis presented in the next chapter, Chapter Six.

Chapter Six discusses the findings of the main survey. First, it presents the findings of the confirmatory factor analysis of the scales that measured service recovery and switching barriers. It then goes onto discuss the relationship between these two constructs. Finally, Chapter Six discusses the results of the scenario method and presents the outcomes of testing the hypotheses.

CHAPTER 6: MAIN SURVEY FINDINGS

6.1 INTRODUCTION

Chapter Five discussed the process that was undertaken to develop a model to measure the relationship between service recovery and switching barriers. The design of the questionnaire used in the main survey and the purification of the scales that measure service recovery and switching barriers in the Chilean banking industry were also discussed. In this chapter the findings of the main survey are presented. The main survey set out to answer the research objectives and hypotheses outlined in Chapter Five. They were;

- **Hypothesis 1:** The six service recovery dimensions will be confirmed in a new sample.
- **Hypothesis 2:** The service recovery evaluation will show no differences on the basis of type of bank, gender or level of education.
- **Hypothesis 3:** Service recovery dimensions will systematically relate to global service recovery evaluation.
- **Hypothesis 4:** Different levels of customer time, complaint handling time and complaint outcome will produce different trade-offs and effects on SRE.
- **Hypothesis 5:** The five switching barriers dimensions will be confirmed in a new sample.
- **Hypothesis 6:** The level of agreement regarding the existence of switching barriers will show no differences on the basis of type of bank, gender or level of education.
- **Hypothesis 7:** Service barriers will systematically relate to global service recovery evaluation.

6.2 MAIN SURVEY

The main survey set out to answer all the research objectives and hypotheses established in Chapter Five and outlined above. This chapter discusses the details of the main survey. Firstly, fieldwork issues are discussed, then respondents' demographics are shown and lastly, the main findings of the final survey are listed and explained.

6.2.1 Respondent Characteristics in the Main Survey

As mentioned earlier, respondents were selected either in the foyers of banks or when they were entering or exiting a bank. The characteristics of customers who participated in the survey is shown in Table 6.1. The table shows that the sample characteristics of respondents in both the pilot survey (see chapter Five, page 103) and the main survey were similar in the following ways:

- There were a similar percentage of women and men in the sample.
- Approximately 63% of the respondents had attained an educational level of at least undergraduate university qualifications.
- 83% of the customers complained to the four most important Chilean banks: Estado Bank, Santander/Santiago Bank, Chile Bank and BCI Bank.
- Respondents had the following products from their banks: chequing account (36%), ATM debit card (23%), credit card (19%), credit line (15%), loan (11%) and investments (1%).
- Most of respondents had at least one product with their banks for approximately six years on average.

TABLE 6.1 Demographic Characteristics of Respondents in the Main Survey

Item	Characteristic	Number	Percentages
Gender	Male	182	50.5
	Female	178	49.5
Level of Education	Primary School	6	1.9
	High School	128	35.3
	University Undergraduate	129	35.8
	University Post-graduate	97	27.0
Bank Involved in the Complaint	Estado Bank	177	49.2
	Santiago Bank	44	12.2
	Chile Bank	43	11.9
	BCI Bank	33	9.2
	Edwards Bank	15	3.1
	BBVA Bank	11	2.5
	Corpbanca Bank	6	1.7
	Falabella Bank	6	1.7
	Others	25	8.5
Products with that Bank	Chequing Account	130	36.1
	ATM debit card	84	23.3
	Credit Card	68	18.9
	Credit Line	54	15.0
	Loan	41	11.4
	Investments	5	1.4
Number of years of being a Customer	Average	5.85 years (1.6 standard deviation)	

6.2.2 Main Findings

The findings of the main survey are discussed next. The results relative to service recovery are discussed first and then the main findings pertaining to switching barriers are explained, followed by the results related to the relationship between service recovery evaluation and switching barriers. Finally, the findings from the analysis of the scenario method used in this investigation are presented. The scenario method was employed to determine the level of importance of some service recovery dimensions on the evaluation that customers make of bank service recovery efforts.

Service Recovery

Six service recovery dimensions were obtained from the pilot-survey and in order to make sure that the scale items aligned with their intended dimensions, confirmatory factor analysis was performed. The relationship between the service recovery dimensions and the overall service recovery evaluation construct was then determined. Finally, customers' evaluations of bank efforts at service recovery were assessed.

Confirmatory Factor Analysis

To confirm the existence of a six factor structure, confirmatory factor analysis was performed. Results showed a good fit confirming the six factor structure: CFI, GFI and AGFI had values higher than 0.90 (0.98, 0.96 and 0.92, respectively) and RMSEA had a value (0.06) lower than 0.08 as expected. Table 6.2 shows the standardized parameter estimates of the confirmatory factor analysis. These results support hypothesis 1 and sub-hypotheses 1a, 1b, 1c, 1d, 1e and 1f.

Hypothesis 1: The six service recovery dimensions will be confirmed in a new sample.

Hypothesis 1a: Reversing bank mistakes is confirmed in a new sample.

Hypothesis 1b: Customer compensation is confirmed in a new sample.

Hypothesis 1c: Customer time and effort is confirmed in a new sample.

Hypothesis 1d: Treatment of the customer is confirmed in a new sample.

Hypothesis 1e: Complaint handling time is confirmed in a new sample.

Hypothesis 1f: Employees' power to make decisions is confirmed in a new sample.

Table 6.2 CFA Results for Service Recovery Evaluation – Standardised Parameter Estimates

Dimension	Standardised Regression Weights
Reversing Bank Mistakes	
sr.75	.81*
sr.84	.84*
sr.56	.75*
sr.21	.73*
sr.28	.77*
sr.19	.82*
sr.49	.65*
Customer Compensation	
sr.51	.83*
sr.78	.84*
sr.79	.65*
sr.22	.63*
sr.23	.75*
sr.50	.65*
Customer Time and Effort	
sr.62	.88*
sr.63	.83*
sr.34	.77*
sr.35	.75*
sr.7	.67*
Treatment of Customer	
sr.68	.69*
sr.67	.74*
sr.72	.73*
sr.29	.81*
sr.57	
Complaint Handling Time	
sr.5	.76*
sr.61	.78*
sr.8	.81*
Bank Employees' Power to Make Decisions	
sr.65	.79*
sr.37	.76*

* Deemed significant at $p < 0.05$

Evaluation of the Level of Service Recovery Dimensions

Table 6.3 shows the evaluation Chilean customers make of bank service recovery efforts for each dimension measured. The study showed that, on average, Chilean customers do not evaluate the way banks handle complaints very highly in any of the dimensions. The overall evaluation of all combined service recovery dimensions received an average score of 2.97 out of 5. This result is not very good considering that in the scale used to measure banks performance in terms of service recovery efforts, the number 3 was neither poor nor good. In terms of the evaluation of the service recovery dimensions, the best evaluations were treatment of customers and employees' power to make decisions and the worst evaluation was customer compensation. However, when looking at each score it is obvious that they were all rated within a half scale point either

side of the neutral point on the scale. The two variables furthest apart were customer compensation which scored lowest and treatment of the customer which scored highest.

Table 6.3 Chilean Customers Evaluation of Bank Service Recovery Efforts

Service Recovery Dimensions	Evaluation²	Standard Deviation
Customer Time and Effort	3.04	0.83
Complaint Handling Time	2.98	0.86
Reversing Bank Mistakes	2.86	0.86
Customer Compensation	2.54	1.00
Treatment of the Customer	3.19	0.77
Power to Make Decisions	3.18	0.98

2: The scale went from 1 to 5, where 1 was very poor and 5 was very good

Evaluation Between Banks One-way MANOVA analysis was performed to determine if there were significant differences in the service recovery evaluation of the different Chilean banks. The multivariate test showed no significant differences between banks in regards to the evaluation of the service recovery dimensions ($p=0.643$). The results mean that Chilean banks were equally evaluated by customers with respect to their service recovery efforts. These results support Hypothesis 2a which predicted that:

Hypothesis 2a: The service recovery evaluation will show no differences on the basis of type of bank.

Evaluation Between Gender One-way MANOVA analysis was performed to determine if there were significant differences in the evaluation that men and women make of bank service recovery efforts. The multivariate test showed no significant differences in the evaluation that both genders make of the way banks handle complaints ($p=0.745$). The results mean that men and women evaluate equally bank efforts of service recovery. These results support Hypothesis 2b which predicted that:

Hypothesis 2b: The service recovery evaluation will show no differences on the basis of gender.

Evaluation Between Levels of Education One-way MANOVA analysis was performed to determine if customers with different levels of education evaluate differently bank service recovery efforts. The multivariate test showed no significant differences in the evaluation that customers with different levels of education make of the way banks handle complaints ($p=0.398$). The results mean that customers with different levels of education evaluate equally bank efforts of service recovery. These results support Hypothesis 2c which predicted that:

Hypothesis 2c: The service recovery evaluation will show no differences on the basis of level of education.

Switching Barriers

The results of the confirmatory factor analysis are shown first in order to make sure that the scale items developed for measuring switching barriers aligned with their intended dimensions. The perception of Chilean customers regarding the existence of switching barriers is then discussed.

Confirmatory Factor Analysis

The analysis performed in the pilot survey resulted in five factors that measured switching barriers. To confirm the existence of a five factor structure, confirmatory factor analysis was performed. Results showed a good fit confirming the five factor structure: CFI, GFI and AGFI had values higher than 0.90 (0.95, 0.94 and 0.92, respectively) and RMSEA had a value (0.05) lower than 0.08 as expected. Table 6.4 shows the standardized parameter estimates of the confirmatory factory analysis. These results support hypothesis 5 and sub-hypotheses 5a, 5b, 5c, 5d and 5e.

Hypothesis 5: The five switching barriers dimensions will be confirmed in a new sample.

Hypothesis 5a: Organizational credibility is confirmed in a new sample.

Hypothesis 5b: Relational values is confirmed in a new sample.

Hypothesis 5c: Value congruency is confirmed in a new sample.

Hypothesis 5d: Lack of attractive alternatives is confirmed in a new sample.

Hypothesis 5e: Difficulties of switching is confirmed in a new sample.

Table 6.4 CFA Results for Switching Barriers – Standardised Parameter Estimates

Dimension	Standardised Regression Weights
Organizational Credibility	
swbarrier.11	.51*
swbarrier.10	.74*
swbarrier.12	.77*
swbarrier.15	.66*
swbarrier.16	.71*
swbarrier.14	.72*
swbarrier.13	.67*
swbarrier.17	.65*
Value Congruency	
swbarrier.28	.66*
swbarrier.24	.57*
swbarrier.29	.46*
swbarrier.25	.61*
swbarrier.26	.70*
swbarrier.27	.48*
swbarrier.23	.62*
Difficulties of Switching	
swbarrier.2	.79*
swbarrier.3	.77*
swbarrier.6	.52*
Lack of Attractive Alternatives	
swbarrier.9	.77*
swbarrier.7	.48*
swbarrier.8	.59*
swbarrier.1	.56*
Relational Values	
swbarrier.22	.66*
swbarrier.20	.72*
swbarrier.19	.83*
swbarrier.18	.66*
swbarrier.21	.63*

* Deemed significant at $p < 0.05$

Level of Agreement Regarding the Presence of Switching Barriers in the Chilean Banking Industry

Table 6.5 shows the average score on the level of agreement regarding the presence of the five switching barriers in the Chilean banking industry. Generally speaking, all the switching barriers were scored within half a scale point of 3 within that range. The results show that Chilean customers perceive that lack of attractive alternatives and difficulties of switching have a greater presence than organizational credibility, relational values and value congruency.

Table 6.5 Perception of the Existence of Switching Barriers*

Switching Barriers	Mean	Standard Deviation
Organizational Credibility	2.54	0.71
Relational Values	2.74	0.79
Value Congruency	2.88	0.68
Lack of Attractive Alternatives	3.12	0.78
Difficulties of Switching	3.19	0.80

* The scale went from 1 to 5, where 1 was totally disagree and 5 was totally agree

Switching Barriers Behavior by Type of Bank. One-way MANOVA analysis was performed to determine if there were significant differences in the perception of the presence of switching barriers between Chilean banks. The multivariate test showed no significant differences between banks in regards to customer perception of presence of switching barriers ($p < 0.23$). The results mean that customers from the different Chilean banks perceived relatively the same the presence of switching barriers in the Chilean banking industry. These findings support hypothesis 6a which predicted that:

Hypothesis 6a: The level of agreement regarding the presence of switching barriers will show no differences on the basis of type of bank.

Switching Barriers Behavior by Gender One-way MANOVA analysis was performed to determine if men and women perceive the presence of switching barriers differently in the Chilean banking industry. The multivariate test showed significant differences between the perception that men and women have regarding the presence of switching barriers (Wilks' Lambda = 0.932; multivariate (dls) $F = 5.179$; $p < 0.001$). Table 6.6 shows the tests for univariate between-subjects effects, where it can be observed that men and women perceive as different the presence of two switching barriers: value congruency and relational values. Table 6.7 shows that women perceive that these two switching barrier dimensions have a presence to a higher degree than men do. These results do not support hypothesis 6b which predicted that:

Hypothesis 6b: The level of agreement regarding the presence of switching barriers will show no differences on the basis of type gender.

Table 6.6 Tests of Between-Subjects Effects (Gender)

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Gender	Organizational Credibility	.579	1	.579	1.135	=.287
	Value Congruency	5.027	1	5.027	11.030	<.001
	Relational Values	3.926	1	3.926	6.467	=.011
	Difficulties of Switching	.093	1	.093	.145	=.703
	Lack of Attractive Alternatives	1.176	1	1.176	1.923	=.166

Table 6.7 Means for the Significant Effects (Gender)

	Men	Women
Value Congruency	2.76 (0.69)	2.99 (0.67)
Relational Values	2.63 (0.79)	2.84 (0.77)

Switching Barriers Behavior by Education. One-way MANOVA analysis was performed to determine if customers with different levels of education perceive the presence of switching barriers differently in the Chilean banking industry. The multivariate test showed significant differences between the perception of customers with different levels of education regarding the presence of switching barriers (Wilks' Lambda = 0.894; multivariate (dls) F= 1.992; p=0.006). Table 6.8 shows the tests for univariate between-subjects effects where it can be seen that customers with different levels of education perceive as different the presence of two switching barriers: value congruency and relational values. Table 6.9 shows that customers with progressively higher levels of education perceive that these two switching barrier dimensions have a progressively greater presence in the Chilean retail banking industry. These findings do not support hypothesis 6c which predicted that:

Hypothesis 6c: The level of agreement regarding the presence of switching barriers will show no differences on the basis of level of education.

Table 6.8 Tests of Between-Subjects Effects (Level of Education)

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Level of education	Organizational Credibility	.931	4	.233	.464	=.762
	Value Congruency	6.627	4	1.657	3.659	=.006
	Relational Values	7.312	4	1.828	3.078	=.016
	Difficulties of Switching	2.185	4	.546	.849	=.495
	Lack of Attractive Alternatives	3.288	4	.822	1.341	=.254

Table 6.9 Means for the Significant Effects (Level of Education)

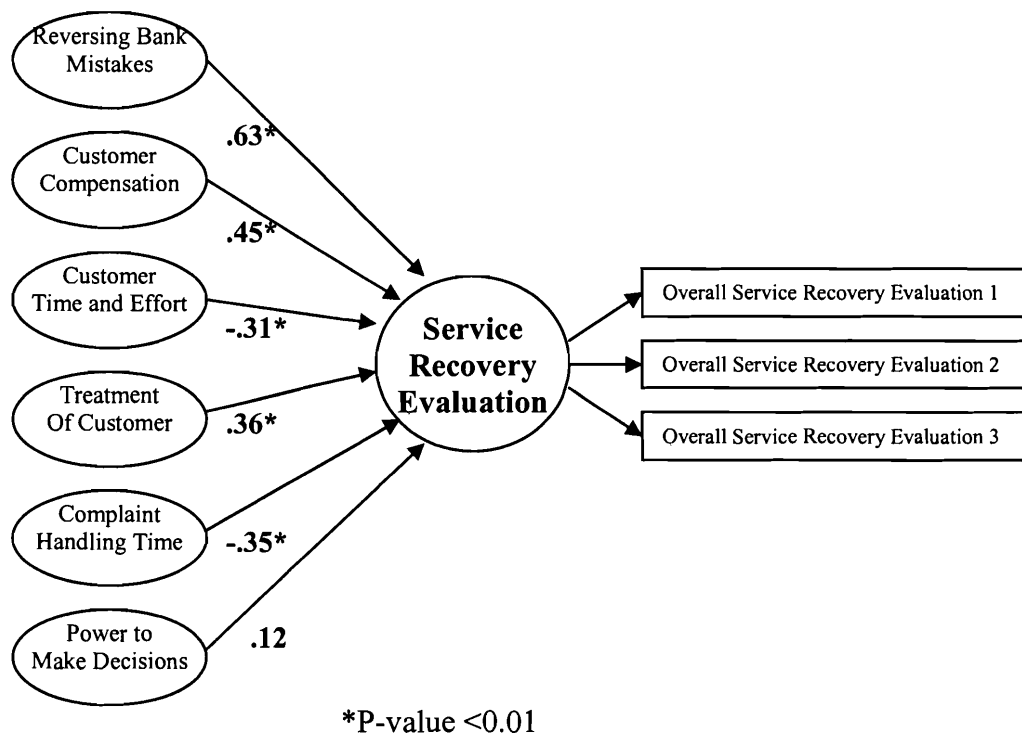
	Primary School	Secondary School	University Undergraduate	University Postgraduate
Value Congruency	2.74 (0.71)	2.81 (0.63)	2.92 (0.70)	3.03 (0.62)
Relational Values	2.44 (0.95)	2.62 (0.49)	2.71 (0.81)	2.88 (0.68)

Relationships between the Global Service Recovery Evaluation and the Service Recovery Dimensions

In order to determine if there is a relationship between the global service recovery evaluation and the service recovery dimensions, the two-step approach recommended by Anderson and Gerbing (1998) was followed. The first step involved the use of confirmatory factor analysis to develop an acceptable measurement model for the service recovery. The second step involved the use of structural equation modelling to test the structural model. With regard to the global service recovery evaluation, the construct comprised three scale items (e.g. overall service recovery evaluations 1, 2 and 3) and showed high internal consistency reliability (Cronbach's alpha of 0.92). In terms of the service recovery dimensions considered in this analysis, these corresponded to the dimensions that were obtained from the pilot survey discussed in Chapter Five and agreed with the confirmatory factor analysis explained earlier in this chapter. These dimensions, each defined by specific scale items, were: reversing bank mistakes, customer compensation, customer time and effort, treatment of customers, complaint handling time and power to make decisions.

The overall goodness-of-fit of the model measured by the ratio of χ^2/df was 3.1, thus suggesting that the proposed model fits the data reasonably well. The other goodness-of-fit indices also suggested an adequate fit (CFI=0.90; GFI=0.93; AGFI=0.89 and RMSEA=0.07). The total coefficient of determination (R^2) for all the structural equations was, jointly, 0.65 indicating a good fit. These results indicate that the proposed model fits the data adequately (see Figure 6.1).

Figure 6.1 Relationship between the Global Service Recovery Evaluation and the Service Recovery Dimensions



In terms of the relationships between the service recovery evaluation construct and the six service recovery dimensions, only one dimension was not significantly related to the service recovery evaluation construct. This dimension was employees' power to make decisions. This result does not support hypothesis 3f, which was:

Hypothesis 3f: The greater the employees' power to make decisions, the higher the SRE.

Regarding the other five dimensions, they were significantly predictive of SRE at a level of $p < 0.01$. Based on the magnitude of the path coefficient, reversing bank mistakes emerged as the dimension of service recovery most strongly related to service recovery evaluation. The dimension had a strong positive relationship to service recovery evaluation meaning that by reversing bank mistakes, service recovery evaluation would increase significantly. This result supports hypothesis 3a which was:

Hypothesis 3a: Reversing bank mistakes increases SRE.

Customer compensation and treatment of customers were shown to have a positive relationship with service recovery evaluation, meaning that a bank that compensates its customers and/or treats them well during the process of complaining would increase the customer's evaluation of its service recovery efforts. These results support hypotheses 3b and 3d. These hypotheses were:

Hypothesis 3b: The higher the customer compensation, the higher the SRE.

Hypothesis 3d: The better the treatment of the customer, the higher the SRE.

Customer time and effort and complaint handling time were shown to have a negative relationship to service recovery evaluation meaning that when banks take too long to solve customers' complaints or when customers spend too much time looking for a solution to the complaints, the customer's evaluations of bank efforts of service recovery decreases. These findings support hypotheses 3c and 3e which predicted that:

Hypothesis 3c: The greater the customer time and effort, the lower the SRE.

Hypothesis 3e: The higher the complaint handling time, the lower the SRE.

Relationship Between Service Recovery Evaluation And Switching Barriers

In order to determine if there is a relationship between the constructs of service recovery evaluation and switching barriers, the two-step approach recommended by Anderson and Gerbing (1998) was followed. The first step involved the use of confirmatory factor analysis to develop an acceptable measurement model for the service recovery and switching barriers constructs. The second step involved the use of structural equation modelling to test the structural model. Figure 6.2 displays this model, which considered the relationship between the service recovery evaluation construct and the five switching barriers dimensions (organizational credibility, value congruency, relational values, difficulties of switching and lack of attractive alternatives) which were obtained from the pilot survey and confirmed in the confirmatory factor analysis.

The overall goodness-of-fit of the model measured by the ratio of χ^2/df was 2.3, thus suggesting that the proposed model fits the data reasonably well. Other goodness-of-fit indices also showed a relatively good fit of the model: CFI (0.93), GFI (0.91) and RMSEA (0.060) were close to the expected values, meanwhile AGFI (0.89) had a value lower than expected (0.90).

With regard to the relationship between service recovery evaluation and the switching barriers dimensions, the three dimensions showed a positive and significant relationship to the service recovery evaluation construct (e.g. organizational credibility, value congruency and relational values) with organizational credibility showing the strongest relationship. This positive relationship means that a bank can increase its service recovery evaluation by having high levels of organizational credibility, value congruency and relational values with its customers. These results support hypothesis 7a, 7b and 7c which established that:

Hypothesis 7a: The stronger the organizational credibility of the bank, the higher the service recovery evaluation.

Hypothesis 7b: The stronger the value congruency between the bank and its customers, the higher the service recovery evaluation.

Hypothesis 7c: The stronger the relational values between the bank and its customers, the higher the service recovery evaluation.

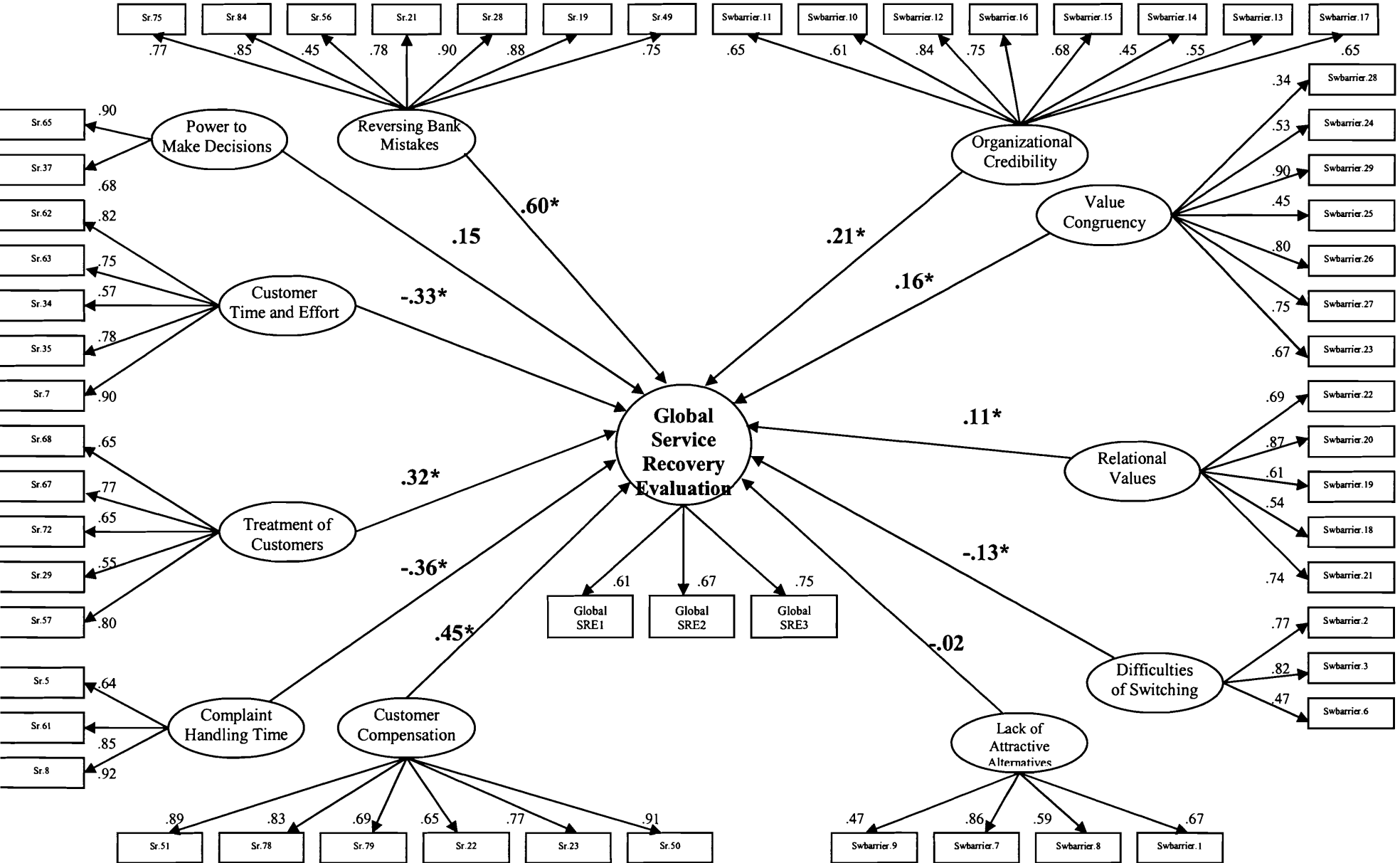
In terms of the relationships of the other two switching barriers dimensions, lack of attractive alternatives was shown not have a significant relationship to the construct service recovery evaluation, which means that it does not affect the way customers evaluate bank service recovery efforts. The finding does not support hypothesis 7d which predicted that:

Hypothesis 7d: The stronger the lack of attractive alternatives, the lower the SRE.

Difficulties of switching had a negative and significant relationship with the service recovery evaluation construct, which means that a bank that increases the level of difficulties to exit the bank would decrease its perceived level of service recovery evaluation in the eyes of customers. The finding supports hypothesis 7e which predicted that:

Hypothesis 7e: The stronger the difficulties of switching, the lower the SRE.

Figure 6.2 The Relationship between Service Recovery Evaluation and Switching Barriers



* P-value < 0.01

Scenario Method

Taking into consideration the conclusions of the qualitative focused interviews, a scenario method was conducted mainly to determine the impact of customer time, complaint handling time and complaint outcome on customers' evaluations of bank service recovery efforts.

This section provides the results of the factorial design undertaken to examine service recovery dimension differences. As mentioned in the methodology chapter, the three independent variables considered in the scenarios were: complaint outcome (3 levels), customer time (2 levels) and complaint handling time (2 levels). Four dependent measures were used to evaluate the different scenarios: evaluation of complaint outcome, evaluation of customer time, evaluation of complaint handling time and global evaluation.

In terms of the data analysis itself, a three-way factorial MANOVA was performed. All of the assumptions for MANOVA were met and in all cases the cell sizes were above the minimum recommended size of 20 (Hair et al., 1998). Table 6.10 shows that each scenario was evaluated by 30 different customers, giving a total of 360 evaluations.

Table 6.10 Number of Respondents that Answer Each Type of Scenario

Customer Time	Complaint Handling Time	Complaint Outcome			Total
		No Correction	Correction	Compensation	
Not Much	Week	30	30	30	90
	Month	30	30	30	90
A lot	Week	30	30	30	90
	Month	30	30	30	90
Total		120	120	120	360

Table 6.11 shows a summary of the results of all multivariate tests associated with the experimental design. First, Table 6.11 shows that there was a significant three-way interaction between customer time, complaint handling time and customer outcome. Second, it shows that there were two significant two-way interactions between a) customer time and customer outcome and b) complaint handling time and customer outcome. The interaction between customer time and complaint handling time was not significant. Finally, Table 6.11 shows that there were significant main effect differences

for customer time, complaint handling time and customer outcome. All these results are discussed in the following sections of this chapter. In these discussions only the pattern of means for the dependent variable “global evaluation” is shown. The other dependent variables were simply manipulation checks that showed patterns that matched what the design was intended to show.

Table 6.11 MANOVA Results – Significance Multivariate Tests

Effect	Wilks' Lambda	Exact F	Hyp. Df	Error df	Sig.
CUSTOMER TIME (C.T.)	.80	12.32	7.00	345.00	<.001
COMPLAINT HANDLING TIME (C.H.T.)	.93	03.92	7.00	345.00	<.001
COMPLAINT OUTCOME (CO)	.87	03.68	14.00	690.00	<.001
C.T. * C.H.T.	.98	01.06	7.00	345.00	<.413
C.T. * C.O.	.79	13.12	7.00	345.00	<.001
C.H.T. * C.O.	.80	12.41	7.00	345.00	<.001
C.T. * C.H.T. * C.O.	.77	11.30	7.00	345.00	<.001

* means the interaction between two constructs (e.g. interaction between C.T.and C.H.T)

Interaction between the Independent Variables

As established in Chapter Five, one of the hypotheses of the investigation asked about the interactions (i.e. trade offs) among three service recovery dimensions: customer time, complaint handling time and complaint outcome. To address that hypothesis, this section interprets the results of three-way and two-way interactions between the three dimensions of service recovery; customer time, complaint handling time and complaint outcome.

Three-Way Interactions Between Customer Time, Complaint Handling Time and Complaint Outcome Table 6.11 revealed a significant multivariate three-way interaction between customer time, complaint handling time and complaint outcome ($p<0.001$). Table 6.12 shows that the three-way interaction was significant for all the four dependent variables used to evaluate the scenarios. The results mean that customer evaluations of bank service recovery efforts vary within the level of interaction of the three service recovery dimensions included in the scenarios: customer time, complaint handling time and complaint outcome.

Table 6.12 MANOVA Results – Tests of Three-Way Interaction

Dependent Variables	Type III Sum of Squares	Df	Mean Square	F	Sig.
Evaluation of Complaint Outcome	40.506	2	18.253	20.02	<.001
Evaluation of Complaint Handling Time	30.506	2	17.753	22.64	<.001
Evaluation of Customer Time	24.850	2	12.375	15.86	<.001
Global Evaluation	20.356	2	10.178	18.04	<.001

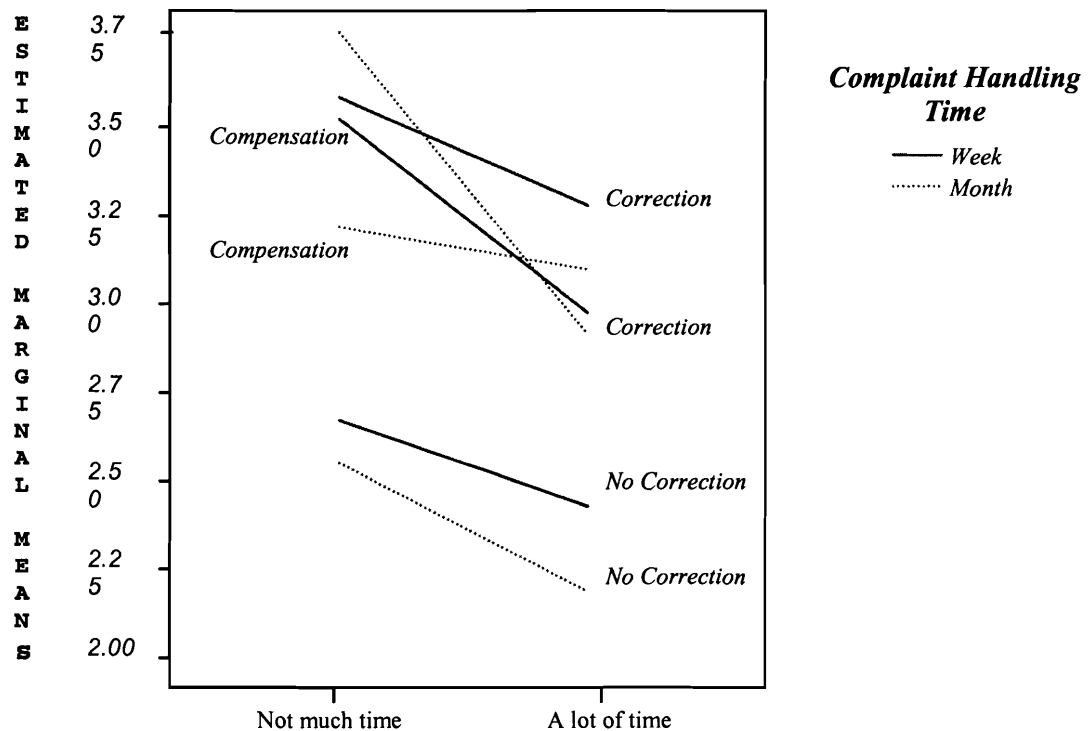
Figure 6.3 graphically shows the interaction of each level of complaint outcome (e.g. corrections, no correction, compensation) with customer time and complaint handling time in order to obtain more information regarding the three-way interaction between customer time, complaint handling time and complaint outcome.

The results show that if the outcome is “no correction”, then customer time and complaint handling time have consistent effects. If recovery takes a lot of time for the customer or a lot of time for the complaint to be handled, global evaluation is lower. Where there is a correction as an outcome, the effects of customer time and complaint handling time are inconsistent. Customer time decreases global evaluation much more steeply if complaint handling time is longer rather than shorter. Therefore, the effect of customer time more strongly influences global evaluation than does complaint handling time. Where there is compensation, a similar pattern to a correction outcome results, but effects are much flatter and the impacts of customer time and complaint handling time are reversed.

These results support hypothesis 4a, which predicted that:

Hypothesis 4a: There will be a three-way interaction between customer time, complaint handling time and complaint outcome as they influence global SRE.

Figure 6.3 Estimated Marginal Means of Global Evaluation of Scenarios at Three Different Types of Outcomes: No Corrections, Corrections and Compensation.



Two-Way Interactions The interactions between a) customer time and complaint handling time, b) customer time and complaint outcome and c) complaint handling time and complaint outcome are discussed in this section of the chapter.

a) *Customer Time and Complaint Handling Time.* As shown in Table 6.11 there is no significant multivariate difference in the evaluation of the dependent measures related to the different combinations of customer time and complaint handling times ($p=0.413$). These findings show that the time spent by customers looking for a solution to the complaint and the time taken by banks to solve the complaint are equally important in the minds of the customers. The results do not support hypothesis 7b relating to the interaction of customer time and complaint handling time. That hypothesis argues that:

Hypothesis 4b: There will be a two-way interaction between customer time and complaint handling time as they influence global SRE.

In fact, the results show that both types of “time” are equally important to customers.

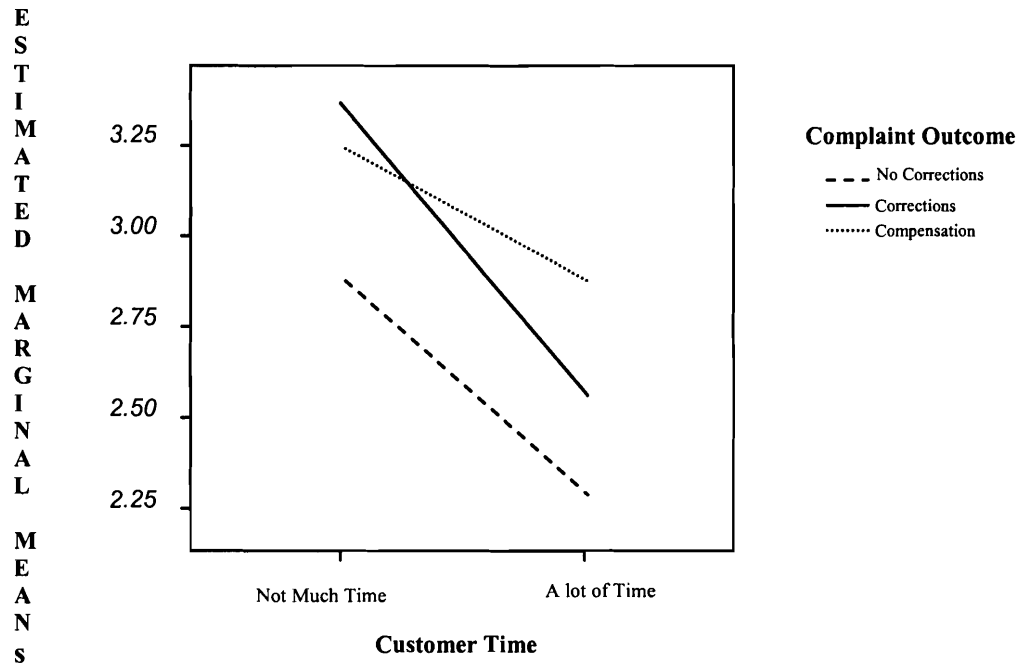
b) Customer Time and Complaint Outcome The multivariate main effect for the interaction between customer time and complaint outcome was significant at $p < 0.001$ (see Table 6.11) indicating that the dependent measures varied significantly between the different levels of interaction of customer time and complaint outcome. Table 6.14 shows that the four dependent measures each showed significant differences in terms of the evaluation of the scenarios. Regarding the differences in the global evaluation, Figure 6.3 indicates that the worst overall score for service recovery evaluation is given to banks that do not reverse their mistakes compared with banks that either correct the mistake or compensate their customers. The figure also shows that even if banks do not correct their mistakes, they can improve their service recovery evaluation by reducing the time the customer has to spend looking for a solution to the complaint. Additionally, Figure 6.4 shows that if customers do not spend too much of their own time in the process of complaining, they evaluate instances whereby banks correct their mistakes very similarly to those where customers are compensated. Conversely, if customers spend too much time in the process of complaining, they evaluate much higher those instances where they are compensated. The results support hypothesis 4c which stated that:

Hypothesis 4c: There will be a two-way interaction between customer time and complaint outcome as they influence global SRE.

Table 6.14 MANOVA Results – Tests of Interaction Between Customer Time and Complaint Outcome

Dependent Variables	Type III Sum of Squares	Df	Mean Square	F	Sig.
Evaluation of Complaint Outcome	57.526	2	57.526	61.13	<.001
Evaluation of Complaint Handling Time	25.026	2	25.026	23.57	<.001
Evaluation of Customer Time	40.838	2	40.838	16.99	<.001
Global Evaluation	54.150	2	54.150	53.99	<.001

Figure 6.4 Estimated Marginal Means of Global Evaluation of Scenarios



c) *Complaint Handling Time and Complaint Outcome* The multivariate main effect for the interaction between complaint handling time and complaint outcome was significant at $p < 0.001$ (see Table 6.11) indicating that the dependent measures varied significantly between the different levels of the two independent variables. Table 6.15 shows that the four dependent measures displayed significant differences when the scenarios were evaluated. Regarding the differences in the evaluation, Figure 6.4 indicates that the worst overall score for service recovery evaluation is given to banks that do not reverse their mistakes compared with banks that either reverse the mistake or compensate their customers. The figure also shows that even if banks do not correct their mistakes, they can improve their service recovery evaluation by reducing the complaint handling time. Additionally, Figure 6.5 shows that if banks do not take too much time to solve the complaint, customers evaluate those instances whereby banks correct the mistakes more positively than those scenarios whereby customers are compensated. Conversely, if the complaint handling time is too long, customers evaluate those instances where they are compensated much more positively.

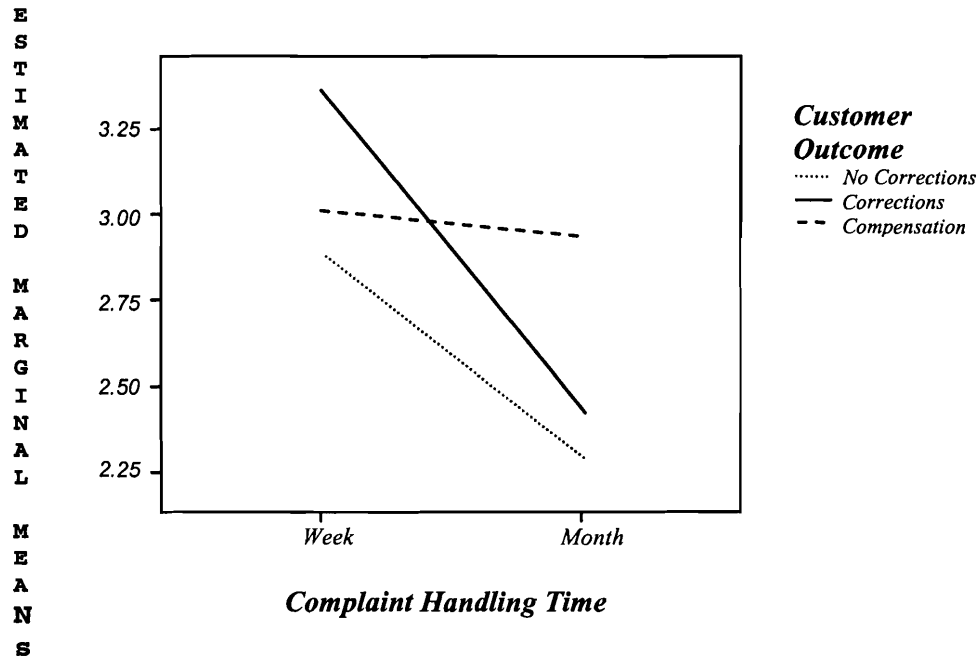
In sum, compensation virtually negates the impact of long complaint handling time, whereas simply correcting a mistake dramatically reduces evaluation of the bank that takes too long to handle the complaint. The results support hypothesis 4d which was:

Hypothesis 4d: There will be a two-way interaction between complaint handling time and complaint outcome as they influence global SRE.

Table 6.15 MANOVA Results – Tests of Interaction Between Complaint Handling Time and Complaint Outcome

Dependent Variables	Type III Sum of Squares	Df	Mean Square	F	Sig.
Evaluation of Complaint Outcome	60.484	2	60.484	64.27	<.001
Evaluation of Complaint Handling Time	25.026	2	25.026	23.58	<.001
Evaluation of Customer Time	19.260	2	19.260	16.99	<.001
Global Evaluation	49.307	2	49.307	49.16	<.001

Figure 6.5 Estimated Marginal Means of Global Evaluation of Scenarios



Evaluations of the Main Effect Levels for Each Service Recovery Dimension

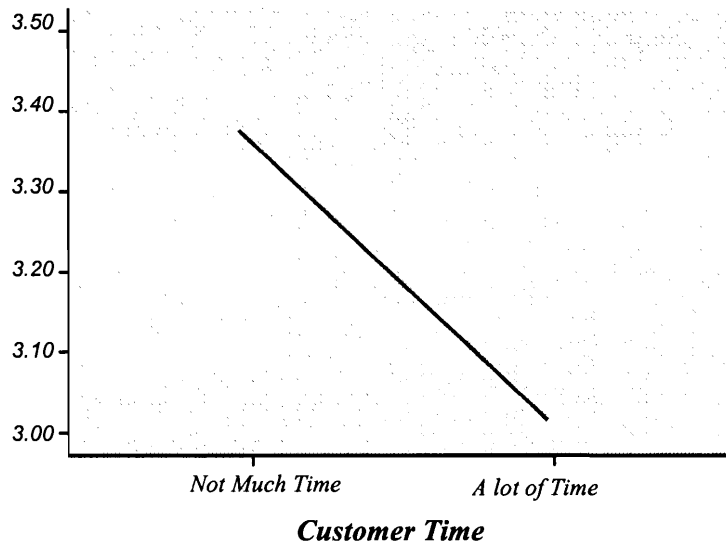
The impact of customer time, complaint handling time and complaint outcome’s main effects are discussed in the following sections of this chapter.

Customer Time The multivariate main effect for customer time, shown in Table 6.11, indicated that there were significant differences in the evaluation of the dependent measures ($p < 0.001$). Table 6.16 shows the results for each of the dependent measures that were used to evaluate the scenarios. All of them showed significant differences between the two levels of customer time. Figure 6.6 displays the estimated marginal means for the global evaluation dependent measure. A logical inference from Figure 6.6 is that the evaluation of service recovery efforts varies significantly according to the time customers spend looking for a solution to their complaints. Consequently, customers evaluate bank service recovery efforts more highly when they do not spend too much time looking for a solution to their complaints.

Table 6.16 MANOVA Results – Tests of Customer Time

Dependent Variables	Type III Sum of Squares	Df	Mean Square	F	Sig.
Evaluation of Complaint Outcome	22.823	1	22.823	24.25	<.001
Evaluation of Complaint Handling Time	17.890	1	17.890	16.86	<.001
Evaluation of Customer Time	6.302	1	6.302	5.56	=.019
Global Evaluation	43.601	1	43.601	43.47	<.001

Figure 6.6 Estimated Marginal Means of Global Evaluation of Scenarios

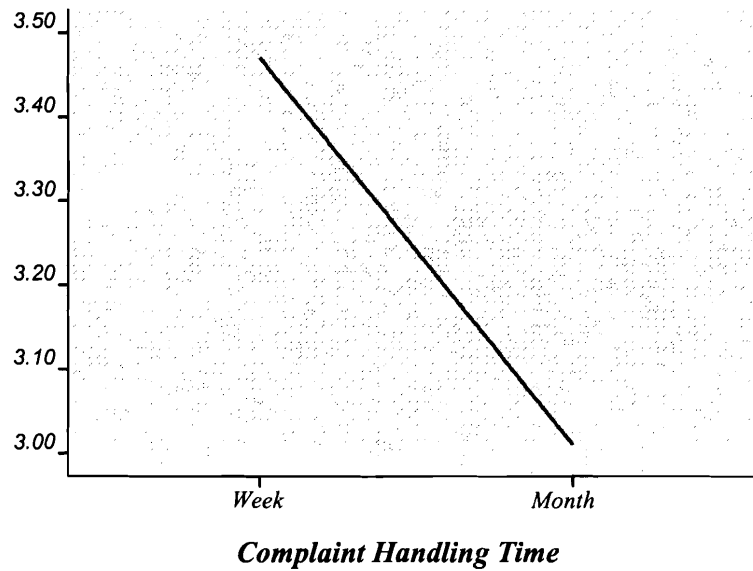


Complaint Handling Time The multivariate main effect for complaint handling time, shown in Table 6.11, indicated that there were significant differences in the evaluation of the dependent measures ($p < 0.001$). Table 6.17 shows the results for each of the four dependent measures that were used to evaluate the scenarios. Six of them showed significant differences between the two levels of complaint handling time (e.g. a week and a month). Figure 6.7 displays the estimated marginal means of the dependent measure global evaluation which was shown to be significant. Figure 6.7 indicates that customers evaluate complaints that are solved in a lesser period of time significantly more positively. Therefore, banks could improve the evaluation of their service recovery efforts by reducing the time they take to provide a solution to customer complaints.

Table 6.17 MANOVA Results – Tests of Complaint Handling Time

Dependent Variables	Type III Sum of Squares	Df	Mean Square	F	Sig.
Evaluation of Complaint Outcome	12.393	1	12.393	13.17	<.001
Evaluation of Complaint Handling Time	4.753	1	4.753	2.61	<.041
Evaluation of Customer Time	14.671	1	14.671	12.94	<.001
Global Evaluation	7.659	1	7.659	7.64	<.001

Figure 6.7 Estimated Marginal Means of Global Evaluation of Scenarios

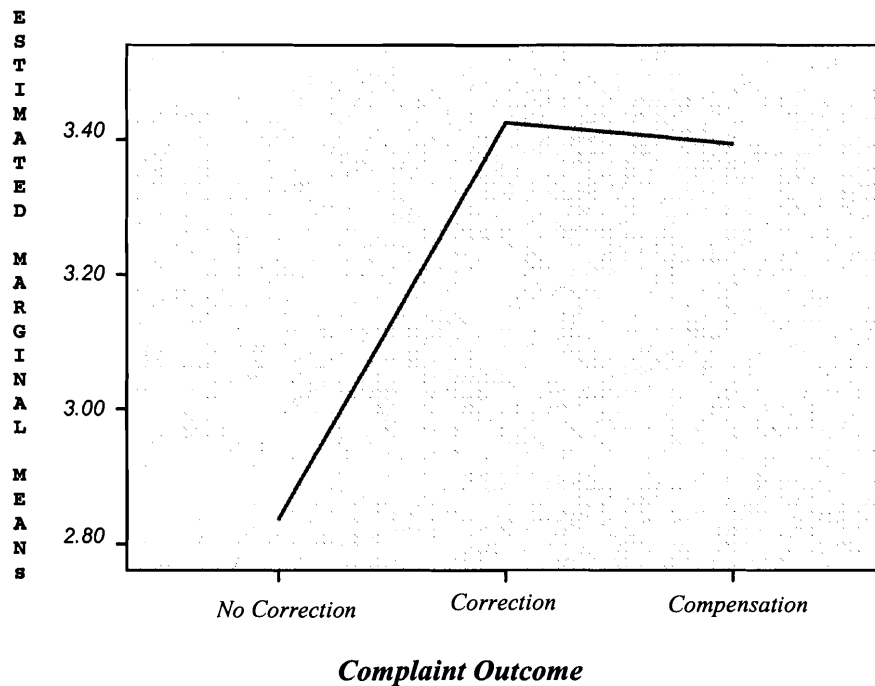


Complaint Outcome. The multivariate main effect for complaint outcome, shown in Table 6.11, indicated that there were significant differences in the evaluation of the dependent measures ($p < 0.001$). Table 6.18 shows the results for each of the dependent measures that were used to evaluate the scenarios. All of them showed significant differences across the three levels of complaint outcome. Figure 6.8 displays the estimated marginal means of the dependent measure global evaluation that was shown to be significant. Figure 6.8 indicates that customers evaluate significantly worse those instances where banks did not reverse their mistakes. In addition, the figure shows that customers evaluate slightly better those instances whereby banks reverse their mistakes compared to those cases where customers are compensated.

Table 6.18 MANOVA Results – Tests of Complaint Outcome

Dependent Variables	Type III Sum of Squares	Df	Mean Square	F	Sig.
Evaluation of Complaint Outcome	12.476	2	6.238	6.63	<.001
Evaluation of Complaint Handling Time	11.113	2	5.556	5.24	<.006
Evaluation of Customer Time	8.946	2	4.473	3.95	<.020
Global Evaluation	26.587	2	13.293	13.25	<.001

Figure 6.8 Estimated Marginal Means of Global Evaluation of Scenarios



6.3 SUMMARY

In this chapter the findings of the main survey were discussed. First, the most important findings relative to service recovery were shown. The construct studied was composed of six factors: reversing bank mistakes, customer compensation, customer time and effort, treatment of customers, complaint handling time and power to make decisions. Five of these factors: reversing bank mistakes, customer compensation, treatment of customer, complaint handling time and customer time and effort were shown to be significantly related to service recovery evaluation. The factor of employees' power to make decisions was shown to be non-significant. In terms of customer evaluation of overall service recovery, banks were not evaluated very highly. The evaluation did not vary according to type of bank, gender or level of education.

Second, the most important findings relative to switching barriers were discussed. The construct studied was composed of five factors: organizational credibility, value congruency, relationship values, difficulties of switching and lack of attractive alternatives. In terms of the presence of switching barriers in the Chilean banking industry, customers perceive that organizational credibility, value congruency and relational values are present to a higher degree than lack of attractive alternatives and difficulties of switching. The perception of presence of switching barriers did not vary significantly when the between-subjects effects of type of bank were taken into account. The gender and level of education of the respondent, however, showed significant differences in the switching barrier dimensions of value congruency and relational

values. Women and customers with higher levels of education perceived that these two dimensions existed to a higher degree. Third, the relationship between switching barriers and service recovery evaluation was discussed. The switching barriers of organizational credibility, value congruency and relational values were shown to be positively related with service recovery evaluation. The dimension related to difficulties of switching was shown to have a negative relationship with service recovery evaluation and lack of attractive alternatives showed no significant relationship.

Finally, the main findings of the scenario method were shown. Results showed a significant three-way interaction exists between the dimensions of customer time, complaint handling time and complaint outcome. It also showed significant two-way interactions between customer time and complaint outcome and complaint handling time and complaint outcome. The interaction between customer time and complaint handling time was shown not to be significant. Overall, the results of the scenarios showed that customers evaluate service recovery efforts more positively when they do not spend too much of their own time in the process of complaining, when banks reverse their mistakes and when the complaint handling time for resolving the complaint is short. If customers spend too much time looking for a solution to their complaint, banks could increase the customer's positive evaluation of service recovery by taking less time to make a decision regarding the complaint or by compensating them. Based on all of these analyses, it was established that all hypotheses were supported, except for hypotheses 3f, 4b, 6b, 6c and 7d (see the summary displayed in Table 6.19).

In the next chapter, the conclusions that can be drawn from these results and their managerial implications will be discussed.

Table 6.19 Hypotheses Testing Outcomes

Hypothesis	Result
<p>Hypothesis 1: The six service recovery dimensions will be confirmed in a new sample.</p> <p>Hypothesis 1a: Reversing bank mistakes is confirmed in a new sample. Hypothesis 1b: Customer compensation is confirmed in a new sample. Hypothesis 1c: Customer time and effort is confirmed in a new sample. Hypothesis 1d: Treatment of customer is confirmed in a new sample. Hypothesis 1e: Complaint handling time is confirmed in a new sample. Hypothesis 1f: Employees' power to make decisions is confirmed in a new sample.</p>	<p>Supported Supported Supported Supported Supported Supported</p>
<p>Hypothesis 2: The service recovery evaluation will show no differences on the basis of type of bank, gender or level of education.</p> <p>Hypothesis 2a: The service recovery evaluation will show no differences on the basis of type of bank. Hypothesis 2b: The service recovery evaluation will show no differences on the basis of gender. Hypothesis 2c: The service recovery evaluation will show no differences on the basis of level of education.</p>	<p>Supported Supported Supported</p>
<p>Hypothesis 3: Service recovery dimensions will systematically relate to global service recovery evaluation.</p> <p>Hypothesis 3a: Reversing bank mistakes increases global SRE. Hypothesis 3b: The higher the customer compensation, the higher the global SRE. Hypothesis 3c: The greater the customer time and effort, the lower the global SRE. Hypothesis 3d: The better the treatment of customer, the higher the global SRE. Hypothesis 3e: The higher the complaint handling time, the lower the global SRE. Hypothesis 3f: The greater the employees' power to make decisions, the higher the global SRE.</p>	<p>Supported Supported Supported Supported Not Supported Supported</p>
<p>Hypothesis 4: Different levels of customer time, complaint handling time and complaint outcome will present trade-offs and effects on SRE.</p> <p>Hypothesis 4a: There will be a three-way interaction between customer time, complaint handling time and complaint outcome as they influence global SRE. Hypothesis 4b: There will be a two-way interaction between customer time and complaint handling time as they influence global SRE. Hypothesis 4c: There will be a two-way interaction between customer time and complaint outcome as they influence global SRE. Hypothesis 4d: There will be a two-way interaction between complaint handling time and complaint outcome as they influence global SRE.</p>	<p>Supported Not Supported Supported Supported</p>
<p>Hypothesis 5: The five switching barriers dimensions will be confirmed in a new sample.</p> <p>Hypothesis 5a: Organizational credibility is confirmed in a new sample. Hypothesis 5b: Relational values is confirmed in a new sample. Hypothesis 5c: Value congruency is confirmed in a new sample. Hypothesis 5d: Lack of attractive alternatives is confirmed in a new sample. Hypothesis 5e: Difficulties of switching is confirmed in a new sample.</p>	<p>Supported Supported Supported Supported Supported</p>
<p>Hypothesis 6: The level of agreement regarding the presence of switching barriers will show no differences on the basis of type of bank, gender or level of education.</p> <p>Hypothesis 6a: The level of agreement regarding the presence of switching barriers will show no differences on the basis of type of bank. Hypothesis 6b: The level of agreement regarding the presence of switching barriers will show no differences on the basis of type gender. Hypothesis 6c: The level of agreement regarding the presence of switching barriers will show no differences on the basis of level of education.</p>	<p>Supported Not Supported Not Supported</p>
<p>Hypothesis 7: Service barriers will systematically relate to global service recovery evaluation.</p> <p>Hypothesis 7a: The stronger the organizational credibility, the higher the SRE. Hypothesis 7b: The stronger the relational values, the higher the SRE. Hypothesis 7c: The stronger the value congruency, the higher the SRE. Hypothesis 7d: The stronger the lack of attractive alternatives, the lower the SRE. Hypothesis 7e: The stronger the difficulties for switching, the lower the SRE.</p>	<p>Supported Supported Supported Not Supported Supported</p>

CHAPTER 7: CONCLUSIONS AND IMPLICATIONS

7.1 INTRODUCTION

Most of the existing studies on service failure and recovery have been undertaken in the context of Western industrialized countries. There is almost no information about service recovery in South American countries, which have a different cultural and socio-economic background. Considering this, the main goal of this research was to evaluate service recovery in the Chilean retail banking industry in order to explore ways in which banks within that cultural context can improve their recovery performance. As a secondary goal, this investigation aimed to determine the influence of switching barriers on service recovery evaluation, which will allow businesses to make better managerial decisions about the switching barriers they should choose to focus on that might improve their relationship with the customer.

To achieve these goals, two constructs were developed and evaluated: service recovery and switching barriers. Moreover, a literature review and qualitative interviews were undertaken. Based on the findings of these studies, two scales were developed for a survey instrument, which were tested in the pilot survey and confirmed in the main survey. The previous chapter, Chapter Six, presented the findings of the main survey. In this chapter the overall conclusions are explained for both service recovery and switching barriers. The conclusions regarding the relationship between service recovery and switching barriers and the hypothesis testing are also discussed. Then the implications for theory and management are presented followed by discussion of the research limitations and future research directions.

7.2 DISCUSSION OF RESULTS

Five groups of research questions were set out at the beginning of this investigation (see Table 7.1). The first group aimed to develop and evaluate the construct of service recovery evaluation, which would permit an evaluation of bank efforts of service recovery in a very specific context, Chile. The second group aimed to develop and evaluate a construct for the measurement of switching barriers. The construct model would measure the presence of switching barriers in the Chilean banking industry. The third group aimed to determine the relationship between the global service recovery evaluation (ie. 'global' in this sense means a customer's overall evaluation of their

experience of service delivery) and the service recovery dimensions, which would determine the service recovery dimensions that have a greater influence on global service recovery evaluation. The fourth group of research questions aimed to determine the relationship between service recovery evaluation and switching barriers in order to establish if the strategies used by Chilean banks to prevent customers from switching to a competitor affect the evaluation of service recovery in those banks. The fifth group aimed to determine the trade-offs and effects of different levels of customer time, complaint handling time and complaint outcome on service recovery evaluation which would give more information regarding the impact of these three service recovery dimensions on service recovery evaluation.

Table 7.1 Research Questions

<p>RQ 1. Developing and Evaluating the Construct of Service Recovery Evaluation.</p> <ul style="list-style-type: none"> • Which dimensions form the construct of service recovery evaluation from the Chilean customer’s perspective? • Are there any differences in the service recovery evaluation on the basis of type of bank, gender or level of education?
<p>RQ 2. Linking Global Service Recovery Evaluation and Service Recovery Dimensions.</p> <ul style="list-style-type: none"> • How do service recovery dimensions relate to global service recovery evaluation?
<p>RQ 3. Trade-offs and Effects of Different Levels of Service Recovery Dimensions</p> <ul style="list-style-type: none"> • Are there three-way interactions between the service recovery dimensions? • Are there two-way interactions between the service recovery dimensions?
<p>RQ 4. Developing and Evaluating the Construct of Switching Barriers.</p> <ul style="list-style-type: none"> • Which dimensions form the construct of switching barrier behaviour for Chilean customers? • Are there any differences in the level of agreement regarding the presence of switching barriers in the Chilean retail banking industry on the basis of type of bank, gender or level of education?
<p>RQ 5. Linking the Constructs of Service Recovery Evaluation and Switching Barriers.</p> <ul style="list-style-type: none"> • Do switching barriers have an impact on how Chilean customers evaluate their bank’s service recovery efforts? • Which switching barriers are more strongly related to service recovery evaluation than others?

The results of the findings regarding each of these groups of research questions are discussed in the next sections of the chapter and also the hypothesis testing.

7.2.1 Research Question 1: Developing and Evaluating the Construct of Service Recovery Evaluation.

Service Recovery Dimensions

The interviews resulting from the qualitative phase of the study showed the complexity and the interrelated nature of the dimensions of importance to customers who experience service failure in the banking industry in Chile. The study shows that from a Chilean customer's perspective six dimensions must be considered by Chilean banks when designing mechanisms for handling complaints. Apart from all of these dimensions, customers also expect different types of reactions from their banks depending on the stage of the complaint process. When lodging the complaint, customers want to be sure that somebody received their complaint and is going to respond to the complaint. They do not want to receive a message from an automatic answering machine, however, if they do, they want to receive a phone call from the person in charge of handling complaints very shortly afterwards. Another possible way of letting a customer know that a bank employee is taking care of their complaints is through e-mails. However, customers should be asked which form of communication they prefer at the beginning of the complaint process.

During the process of looking for a solution to a complaint, customers do not want to spend a lot of their own time looking for a solution. Customers want to go only once to the bank to lodge the complaint and they want somebody to tell them what the bank is going to do to solve the complaint and how much time it is going to take for the complaint to be solved. They also want to be informed at different stages of the process during the complaint. They want to know how the process is progressing and they also expect information once the bank has reached a decision regarding the complaint.

Once a decision has been made, customers expect an explanation as to what happened, so they can be sure this situation is not going to happen again in the future. In addition, they want a sincere apology from their banks and a reversal of the bank's mistakes. Compensation for all financial losses and finally for all the time they spent looking for a solution to the complaint also appeared important for some customers. In summary, the qualitative and exploratory phase of the study revealed the need

customers have for a continual and meaningful dialogue to be set up between themselves and the bank when they have made a complaint.

Based on the results of the literature review and qualitative focused interviews, a questionnaire was designed whose first part contained 24 service recovery dimensions. A pre-test was conducted to determine the clarity of the questionnaire and then a pilot survey was undertaken in order to purify the scale that measured service recovery. As a result of a series of exploratory factor analyses, six dimensions of service recovery were obtained which were shown to have high internal consistency reliability (Cronbach's alphas ranged from 0.81 to 0.94). Then the main survey was conducted whose results confirmed the existence of a six factor structure to measure service recovery. The six factors were: reversing bank mistakes, customer compensation, customer time and effort, treatment of customers, complaint handling time and power to make decisions.

- Reversing bank mistakes: Customers expect their banks to reverse all the negative consequences of the bank's mistake.
- Customer compensation: Customers want to be compensated for all the disruption they went through due to the complaint.
- Customer time and effort: Customers do not want to spend too much time and effort in looking for a solution to the complaint and they want banks to solve the complaint quickly.
- Treatment of customers: Customers want to be treated well.
- Complaint handling time: Customers expect complaints to be solved quickly.
- Power to make decisions: Customers want to deal with a customer service officer who has the power to make decisions regarding the complaint.

In summary, the research identified the meaningful and important dimensions to customers of their complaint handling experiences and then confirmed these six important service dimensions with highly reliable data from a sample of Chilean retail banking customers.

Evaluation of the Service Recovery Dimensions

Chilean customers evaluated their banks as 'neither poor nor good' when it came to the handling of complaints. Overall, they gave a mid-range score of 2.97 (5 was the maximum possible) for the way their banks handled their last complaint, meaning they see the current complaint handling of banks as neither good nor bad but mediocre. In terms of the evaluation of the service recovery dimensions, those of treatment of

customers and employees' power to make decisions were the dimensions evaluated most highly by Chilean customers.

Chilean customers evaluated the service recovery dimensions of customer time/effort and complaint handling time as neither poor nor good (score of 3 approximately). The other two service recovery dimensions of reversing bank mistakes and customer compensation received an average evaluation between poor and neither poor nor good (score of 2.86 and 2.54, respectively) which were the lowest among the service recovery dimensions. These evaluations show that customers rank the two dimensions that measure their treatment by the bank employees and the bank employees power to make decisions as the two most highly rated service recovery dimensions of the six that were measured.

MANOVA analyses showed that there was no significant difference in the evaluation of service recovery that each bank received which suggests that all Chilean banks are being perceived as managing complaints in a similar way. In terms of gender and level of education, the study did not show significant differences meaning that men and women and people with different levels of education perceive that Chilean banks are handling complaints in a very similar fashion, that is, neither poor nor good. In terms of the influence of gender, the results reaffirm the findings obtained by Duffy et al. (2006) that showed that the satisfaction with service recovery efforts in the banking industry is not influenced by gender.

In summary, the issues related to treatment of customers and employees' power to make decisions were relatively well evaluated by customers. The four service recovery dimensions of reversing bank mistakes, compensation, customer time and complaint handling time, in particular, were shown as areas that are not being evaluated very highly by existing bank customers. Obviously, it is these four dimensions in particular that should be handled more effectively by banks.

7.2.2 Research Question 2: Linking Global Service Recovery Evaluation and Service Recovery Dimensions.

This study showed that the most important dimensions for customers when evaluating bank service recovery efforts were reversing bank mistakes, followed by customer compensation, treatment of the customer, complaint handling time and customer time and effort. Employees' power to make decisions was shown not to be significantly important to customers (estimate value of .12). With respect to the interaction effects

between the service recovery dimensions and the global service recovery evaluation, if a bank reverses its mistakes, compensates customers and treats them well, they would increase their evaluation of service recovery. Conversely, if banks increased the time they took to solve the complaint or increased the time customers had to put into looking for a solution to their problems, bank service recovery evaluation would decrease.

The two service recovery dimensions that appear to be the most related with global service recovery (they were shown to have the highest standardized regression weights) could be ascribed to the category of distributive justice, that is, reversing bank mistakes and providing compensation. The service recovery dimensions that could be categorized as procedural and interactional fairness were shown to be equally important to the customers surveyed. They were: customer time, complaint handling time, and treatment of customers, respectively. Employees' power to make decisions was shown not to be significant.

The importance of the dimensions of reversing the bank's mistake, customer compensation, customer time and complaint handling time were also confirmed by the results of the scenario method. The study showed that customers evaluated those scenarios whereby banks corrected their mistakes and compensated customers significantly better than those scenarios where banks did not reverse their mistakes. In addition, the study also showed that banks could improve their evaluation of service recovery by taking less time to solve the problem and by reducing the time customers spend in the process of complaining.

Customers expected to be compensated in those instances where banks took too long to solve the problem and/or customers had to spend too much time looking for a solution to their complaint. This conclusion is also supported by those obtained from the qualitative focused interviews where customers said they expected compensation only when they had to put too much of their own energy or effort into solving the problem. These results reaffirm the conclusions of Johnston and Fern (1999) who said that banking customers expect the problem to be solved. However, the results also appear to contradict the conclusions of other research that argued that compensation was the most important service recovery dimension (Boshoff, 1999; Moshe Davidow, 2000; Estelami, 2000; Valenzuela et al, 2005). It is my view that the results in this thesis do not contradict the fact that compensation is important to customers per se, but the results strengthen the findings that customers see service recovery as a multi-dimensional activity on the part of banks and that the offer of compensation must come together with

a dialogue and activity that reverses the bank's mistake. If complaints take the bank a long time to address, then compensation will effectively negate the impact. However, just reversing the actions related to the complaint will dramatically reduce positive evaluations of service recovery. Such a finding also reveals how close in importance many of the service recovery dimensions are in the mind of the customer. The results call for a 'holistic' approach when dealing with complaints, a response that incorporates all of the six variables of importance to customers.

7.2.3 Research Question 3: Trade-offs and Effects of Different Levels of Service Recovery Dimensions

This study shows that customers evaluations of bank service recovery efforts vary within the level of interaction of the three service recovery dimensions included in the scenarios: customer time, complaint handling time and complaint outcome.

The results show that if the outcome of a complaint is "no correction", then customer time and complaint handling time have consistent effects. Meaning that if the process of service recovery takes a lot of time for the customer or a lot of time for the complaint to be handled, customers evaluate their overall experience with service recovery lower. Where there is a correction as an outcome, the effects of customer time and complaint handling time are inconsistent. Customer time decreases global evaluation much more steeply if complaint handling time is longer rather than shorter. Therefore, the effect of customer time more strongly influences global evaluation than does complaint handling time. Where there is compensation, a similar pattern to a correction outcome results, but effects are much flatter and the impacts of customer time and complaint handling time are reversed.

Regarding customer time and complaint handling time, customers evaluated these two service recovery dimensions as equally important. The MANOVA results of the scenario method used in this investigation showed that there was not a two-way interaction between complaint handling time and customer time, reaffirming that both types of "time" are equally important to customers. The study showed that by reducing the customer and complaint handling times, banks may increase their customer evaluation of service recovery, even in those cases where banks did not reverse the negative consequences of their mistakes. The results contradict the findings of Megehee (1994) who concluded there was no interaction between the speed with which complaints were finalized and redress. The findings from this research also give more

emphasis to the importance of time for customers when evaluating service recovery evaluation, which in past research has not been conclusive (Davidow, 2000; Estelami, 2000; Tax and Brown, 1998).

7.2.4 Research Question 4: Developing and Evaluating the Construct of Switching Barriers.

Some insight regarding the switching barriers was obtained from the qualitative focused interviews. The interviewees felt that despite being dissatisfied with their banks, some of them would not switch banks because they felt attached to their current bank. Other customers would not switch because they said they were prevented from doing so. They have products with these banks such as loans that impede them from switching. However, they also mentioned that once this punitive barrier was removed they would switch to another bank as soon as they had paid off their loan.

The exploratory factor analysis performed in the pilot survey showed the existence of five factors of importance for switching barriers with high internal consistency reliability. The main survey confirmed the existence of a five factor structure for measuring switching barriers. Three of these factors could be associated with positive or more reward-based switching barriers (organizational credibility, value congruency and relational value) and the other two with negative or punitive switching barriers (difficulties of switching and lack of attractive alternatives). The results confirmed the three factors developed by Aldlaigan and Buttle (2005) which are: organizational credibility, value congruency and relational values. Organizational credibility relates to the level of trust customers have with their current banks. Value congruency refers to the congruency of values between customers and their banks. Relational values relate to the level of relationship customers have with bank employees.

In terms of negative switching barriers, past research (Jones et al., 2000; Nielson, 1996; Ping, 1993, Sharma and Paterson, 2000) has shown different types of barriers belonging to this category, such as switching costs, difficulties of switching and lack of attractive alternatives. However, this investigation confirmed only two factors: difficulties of switching and lack of attractive alternatives. Difficulties of switching refers to all those barriers that make it difficult for customers to switch banks, such as the time they would have to spend in order to exit their current bank. The non existence of other attractive alternatives is another factor associated to negative or punitive

switching barriers. Customers would switch to another bank if they thought they could find another bank that offers the quantity and quality of services they required.

In summary then, this research confirmed a five factor structure to measure switching barriers, meaning that Chilean banks could use any of these five switching barriers to retain their customers. Banks could employ more rewarding switching barriers, such as, organizational credibility, value congruency and relational values to retain their customers, or more punitive switching barriers, such as difficulties of switching and lack of attractive alternatives

Level of Agreement Regarding the Presence of Switching Barriers in the Chilean Banking Industry

Chilean customers perceived that the two negative switching barriers, difficulties of switching and lack of attractive alternatives, are used more regularly in the Chilean retail banking industry than the three positive switching barriers of organizational credibility, value congruency and relational values. The results suggest mean that customers believe the Chilean banking industry uses negative or punitive switching barriers more extensively than positive or reward-based switching barriers to retain their customers. With regard to the influence of type of bank, gender and level of education, MANOVA analyses demonstrated that there was no significant difference in the perception of the presence of switching barriers between types of banks. However, in terms of gender and level of education, there was a significant difference in the perception of the presence of the two positive switching barriers of relational values and value congruency. Women and customers with a higher level of education perceive that these two switching barrier dimensions have a presence to a higher degree than the other switching barriers.

In summary, these findings suggest that Chilean banking customers perceive that their banking system used the two punitive and negative switching barriers more often to prevent customers from switching banks compared to the three positive reward-based switching barriers. This finding has an effect on the way customers view their bank because if more reward-based switching barriers are implemented, customers may develop stronger positive ties to their bank, which in turn may have the effect of retaining customers. However, because customers in this research perceived their banks used the punitive switching barriers more than the reward-based positive switching

barriers then their perception of their relationship with their bank may be more negative. The findings in the next section support this assumption.

7.2.5 Research Question 5: Linking the Constructs of Service Recovery Evaluation and Switching Barriers.

Structural equation modelling results revealed that the switching barrier dimensions of organizational credibility, value congruency and relational values are positively related to service recovery evaluation. The results indicate that the dimensions that are associated with reward-based switching barriers have a positive impact on service recovery evaluation. These findings indicate that by creating long-term positive bonds and lasting relationships with their customers, banks not only increase the probability of retaining their customers, but also customers would evaluate their service recovery efforts more highly.

In terms of the two negative switching barriers, difficulties of switching and lack of attractive alternatives, the former was shown to have a significant negative relationship to service recovery evaluation, meaning if banks increase the level of difficulty for exiting the bank, then customers would decrease their evaluation of the bank service recovery efforts. With regard to the dimension of lack of attractive alternatives, the research shows that there is no significant relationship with service recovery evaluation, meaning that even if customers perceive there are attractive alternatives to their existing bank, it does not affect the way customers evaluate the bank's service recovery efforts.

7.2.6 Testing of Research Hypotheses

As discussed on Chapter Five, the study considered seven hypotheses, which were related to the five research questions of the investigation. Based on the information obtained from the main survey all of the hypotheses were supported except hypotheses 3f, 4b, 6b, 6c and 7d.

Hypotheses related to Research Question 1

Hypothesis one refers to the six dimensions of service recovery being confirmed in a new sample. Results of the confirmatory factor analysis showed a very good fit of the model to the data confirming the six factor structure to measure service recovery. These results confirmed that banks should include these six dimensions (e.g. reversing bank

mistakes, customer compensation, customer time and effort, treatment of customers, complaint handling time and employees' power to make decisions) when designing mechanisms for handling complaints thereby supporting hypotheses 1a, 1b, 1c, 1d, 1e and 1f.

Hypothesis two relates to the service recovery evaluation and shows no differences on the basis of type of bank, gender or level of education. The MANOVA results revealed that there were no significant differences to service recovery evaluation on the basis of type of bank, gender or level of education which supports hypotheses 2a, 2b and 2c. The results showed that irrespective of the type of bank, gender or level of education, Chilean retail banking customers evaluate 'not good nor bad' the efforts of service recovery of Chilean banks. In terms of the influence of gender on service recovery evaluation, the results confirmed the findings of Duffy et al. (2006) that found that gender does not influence satisfaction with service recovery efforts.

Hypothesis Related to Research Question 2

Hypothesis three relates to how the six service recovery dimensions relate to global service recovery evaluation. Reversing bank mistakes, customer compensation, customer time, treatment of customers and complaint handling time were significantly related to global service recovery evaluation at a level of $p < 0.01$ (see chapter 6, Figure 6.2) while the dimension of employees' power to make decisions was not significantly related. In terms of the type of relationship, the dimensions of reversing bank mistakes, customer compensation and treatment of customers had a positive relationship to global service recovery evaluation while customer time and complaint handling time had a negative relationship. The results mean that banks are able to increase their customer's evaluation of their service recovery efforts by improving their performance of the service dimensions of; reversing mistakes, compensating customers, reducing the time they take to solve the problem, reducing the time customers spend in the process and by treating customers well. The dimension of employees' power to make decisions was not significant in improving bank efforts of service recovery. Based on this information, hypotheses 3a, 3b, 3c, 3d, and 3e were supported and hypothesis 3f was not supported.

Hypothesis Related to Research Question 3

Hypothesis four refers to the trade-offs and effects of different levels of customer time, complaint handling time and complaint outcome on service recovery evaluation. First,

the MANOVA results showed that there is a significant three-way interaction between these three service recovery dimensions thereby supporting hypothesis 4a. Second, they reveal that there is a significant two-way interaction between customer time and complaint outcome and also between complaint handling time and complaint outcome. The results support hypotheses 4c and 4d but contradict the results obtained by Megehee (1994) who found no interaction between speed and redress. Third, the interaction between customer time and complaint handling time was not significant and did not support hypothesis 4b. The results reaffirm the need for a holistic approach when dealing with complaints in the Chilean banking industry. Customers want all of the six service recovery dimensions managed simultaneously in response to their complaints.

Hypotheses Related to Research Question 4

Hypothesis five refers to the five dimensions of switching barriers being confirmed in a new sample. Results of the confirmatory factor analysis showed a very good fit of the model to the data confirming the five factor structure to measure switching barriers. These results affirmed that Chilean banks could use these five switching barriers (e.g. organizational credibility, value congruency, relational values, difficulties of switching and lack of attractive alternatives) to retain their customers, supporting hypotheses 5a, 5b, 5c, 5d and 5e.

Hypothesis six refers to the level of agreement regarding the presence of switching barriers on the basis of type of bank, gender or level of education. The MANOVA results revealed that there were no significant differences in the level of agreement regarding the presence of switching barriers on the basis of type of bank which supports hypothesis 6a. However, the MANOVA results showed significant difference on the basis of type of gender and level of education, thereby not supporting hypotheses 6b and 6c. The results demonstrate that irrespective of their bank, Chilean customers have a similar perception regarding the presence of switching barriers in the Chilean banking industry. However, this perception varies depending upon gender and level of education of customers. Women and customers with higher levels of education perceive the presence of the two positive switching barriers, value congruency and relational values, to a higher degree than men and customers with lower levels of education.

Hypothesis Related to Research Question 5

Hypothesis seven refers to how switching barriers relate to global service recovery evaluation. Results of the structural equation modelling showed that organizational credibility, value congruency, relational values and difficulties of switching had a significant ($p < 0.01$) relationship with global service recovery evaluation, while lack of attractive alternatives was shown not to have a significant relationship with global service recovery evaluation. In terms of the type of relationship these constructs had, organizational credibility, value congruency and relational values had a positive relationship to service recovery evaluation while difficulties of switching had a negative relationship to service recovery evaluation. Hence, hypotheses 7a, 7b, 7c and 7e were supported and hypothesis 7d was not supported. The results mean that Chilean banking customers would evaluate the service recovery efforts of their bank more positively if they know that their bank was using the positive switching barriers of organizational credibility, value congruency and relational values. This highlights the need for Chilean banks to do better when it comes to the positive types of switching barriers because currently, as seen in the results earlier, customers perceive that banks are using the negative and punitive switching barriers more often than the positive ones.

7.3 IMPLICATIONS FOR THEORY

Initially 22 individual service recovery variables were considered in the study. They were: promptness of acknowledging the existence of the complaint, time spent by the customer during the complaint process, time for solving the complaint, information for the outcome of the complaint, information during the process of the complaint, flexibility, process control, decision control, facilitation /accessibility, employees' power to make decisions, attitude of the customer service officer, taking care of the problem, telling the truth, politeness, explanation, communications skills, tangibles, apology, reversal, compensation for financial losses, compensation beyond recovery of losses and special support.

The results confirmed a 6 factor structure of service recovery dimensions and a 5 factor structure of switching barriers dimensions. The six service recovery dimensions were: reversing bank mistakes, customer compensation, customer time and effort, treatment of customers, complaint handling time and power to make decisions. The five factor structure for measuring switching barriers were: organizational credibility, value congruency, relational value, difficulties of switching and lack of attractive alternatives.

Second, the results showed that the service recovery dimension of 'time' has three different components or dimensions: the time banks take to acknowledge the complaint, the time banks take to solve the complaint and the time that customers spend looking for a solution to the complaint. A failure to distinguish between these dimensions may explain why past researchers have obtained contradictory conclusions about the importance of time (Davidow, 2000, 2003). As discussed in the literature review, there is no consensus as to the effect of time on customer service recovery evaluation. Some studies have shown a positive effect, however, others have shown no effect at all. Future research, therefore, should make a very clear distinction between the type of time they are considering in their studies, so the conclusions may be compared with the findings of other investigations and such as the results in this thesis. Consequently, bank managers can find out which type of time is more important to customers in order to implement customer complaint handling systems appropriately.

Third, an addition to theory lies in the distinction between the notion of compensation and the customer's desire for reversing a bank's mistake. In past research (Davidow, 2000; Estelami, 2000, Valenzuela et al., 2005) these two concepts have been considered as the total benefits that a customer receives in response to a complaint, and therefore collapsed together as one activity. This research showed that the activity of reversing bank mistakes is not considered as being linked together with compensation by retail banking customers. These results are in line with the findings obtained by Duffy et al. (2006) and Johnston and Fern (1999) who argued that banking customers expect the bank to listen to them and to fix the problem. Therefore, these two concepts should be considered as different service recovery dimensions. By doing this, compensation goes from being the most important service recovery dimension to being one that is of equal importance to other dimensions. This finding helps to understand the true meaning of each construct within the mind of the customer in terms of the implementation of customer focused complaint handling procedures. With regard to the implementation of continuous improvement models for service delivery and complaint handling, the Chilean banking industry should be mindful of the way in which customers perceive their complaint handling experiences. The major finding from this research is that customers require that their complaints be handled in a much more holistic fashion than what may have been realized from previous studies. Customers also require each of the service recovery dimensions identified to be attended to in order of importance to them.

Fourth, based on the results from the qualitative focused interviews, compensation was divided into two areas: compensation for financial losses and compensation aside from financial losses. This difference is very relevant because these are totally different types of compensation. On the one hand, customers might suffer financial losses due to the complaint, for which they should be compensated. This type of compensation should be easy for banks to calculate and they should not have any problems in determining the exact amount of monetary compensation their customers require once a service failure has occurred. On the other hand, compensation aside from financial losses refers to the compensation customers expect due to the time and inconvenience they experienced as a result of the bank's mistake and it is much more difficult to quantify this type of compensation. However, the findings clearly show that banks should develop closer relationships and bonds and build up a continuous dialogue with their customers once they have complained in order to understand what customers want in return for their inconvenience.

Fifth, the results of the qualitative interviews showed that customers expect to be informed at all the stages of the process banks use when finding a solution to the complaint. Based on this, information was divided into two sections: information given to customers during the process and information given once a decision regarding the outcome of the complaint has been made. This division is also very relevant for theory. As discussed in the literature review, past research did not make a clear distinction about the type of information with which they were dealing. Several customers in the qualitative phase of the study reported that they were happy with the level of information they received before the bank made a decision, but they were not satisfied with the amount and quality of the information they received once a decision was reached. Other customers reported the opposite, that is, a high level of satisfaction with the information given once the decision was reached and dissatisfaction with the information given before the decision was made. An appropriate response to this type of research result may be that banks should be more consistent with the level of information they provide to their customers during the whole of the complaining process. Before a decision has been made, banks should keep customers informed about the stage at which the complaint is and, once a decision has been made, banks should communicate with customers regarding the decision and explain the reason why that decision was made. Like the previous theoretical implication, this also points to the need for the bank to have a continuous dialogue with their customers about their

complaint.

7.4 MANAGERIAL IMPLICATIONS

On the surface, the results from the research appear unsurprising in that Chilean retail banking customers want to be treated well and to spend as little time as possible looking for a solution to their complaints. The qualitative interviews showed that, ideally, customers would like to lodge the complaint and after a predetermined period of time they would like an outcome, so they would not spend much time seeking a solution to their complaint. However, the research shows that currently customers have to spend too much time dealing with their complaints by going several times to their banks and phoning their customer service officer numerous times.

The main survey showed that customers expect banks to reverse the negative consequences of their service failures and expect to be compensated, particularly when they experience spending too much of their own time and effort looking for a solution to the complaint and/or the bank takes too long to handle a complaint. Additionally, customers not only want the bank to reverse their mistake but also want to see an improvement in the service delivered by banks, so the service failure does not happen again. The results mean that compensation has to be offered to those that have 'out of pocket' expenses as a result of the service failure but, before compensation is offered, the bank could explain to customers how they have altered practices in response to the complaint if they intend to build their relationship with the customer. The results show that banks should focus on developing or improving continuous improvement models by taking into account these results. Such findings also reaffirm what Peppers and Rogers (2004:186) found that service recovery provides a "relationship adjustment opportunity" whereby a business could expand its scope of knowledge about the customer, or as a means to get data about an enterprise's products and services.

Therefore, managers in the Chilean banking industry should look at the feasibility and cost effectiveness of delivering service recovery systems sophisticated enough to respond to the expectations of Chilean retail banking customers that have arisen from this study. These systems should be designed and at the same time explained to bank employees, so they know exactly how to react when customers lodge a complaint and are also be able to explain to customers the steps that have to be followed thereafter. By doing so, customers would reduce the time they spend in the process of complaining

and would, in turn, be much more satisfied with bank efforts of service recovery. These banks should establish very clearly where and how the complaint can be lodged because, in this way, customers would not spend too much of their own time in the process of lodging the complaint. One suggestion is that banks should spend more resources communicating to customers about the way they have to lodge their complaints. Banks should also acknowledge receipt of the complaint using at least one of the following channels: by e-mail, phone or in person. Once they have made initial contact with the customer, they should ask the customer which communication method is preferred. Banks should also tell their customers exactly how much time it will take for the complaint to be solved, so customers do not spend too much time looking for a solution to the complaint or worry about the matter throughout that period of time.

While looking for a solution to the complaint, banks should keep their customers informed during the stages of the complaint, so they know that the bank is taking care of the problem. Throughout the process, banks should inform customers about the outcome of the complaint or they should inform them that more time is required to finalize the matter. When informing customers of specific timeframes and deadlines, the bank should ensure that they can meet those timeframes. Once a decision has been reached, banks should give a full explanation as to why the service failure happened and what is going to be done to reverse the negative consequence of the bank's mistake. In addition, customers expect banks to look for a long term solution to the service failure, so the service failure does not occur again.

With regard to the construct of switching barriers, the results of the research showed a five factor structure to the dimensions that make up switching barriers from the perspective of the customer. Three of the dimensions could be associated with more positive or reward-based switching barriers and two with more punitive types of switching barriers. This underlying structure implies that it might be valid for banks to use either positive or negative switching barriers to keep customers doing business with them. However, the results clearly show that banks should only use the positive and reward-based switching barriers to prevent customers from switching to another bank by increasing the level of customer trust, the value congruency and the interpersonal relationship with customers as these activities will strengthen customers evaluations of their service recovery efforts. Banks may be able to do this by sponsoring charities and building customer trust through public relations activities. If banks develop an image of a "good corporate citizen" through public relations and publicity then their

organizational credibility, value congruency and relational values may improve in the eyes of customers.

In terms of the relationship between the switching barrier constructs and service recovery, this study shows that the more reward-based type of switching barriers are positively related to service recovery evaluation. This could mean that by developing reward-based switching barriers, banks could create more loyal customers, but they also might improve the way customers perceive the bank's service recovery efforts. Regarding the more punitive type of switching barriers, only the dimension of 'level of difficulties' was shown to be significantly related to service recovery evaluation. Customers would reduce their evaluation of bank efforts of service recovery when they perceive there are higher levels of difficulty in terms of exiting their banks. The dimension of lack of attractive alternatives was shown not to be significantly related to service recovery evaluation. This might mean that customers would not change their evaluation of the way banks handle complaints despite the fact that they could not switch to another bank due to the lack of attractive alternatives.

The results seem to suggest that banks that are facing customer dissatisfaction could create punitive and negative switching barriers to avoid dissatisfied customers from switching to another bank. This result is similar to Yanamandram and White's (2006) findings who concluded that businesses should understand the factors that keep customers from switching and develop strategies based on them. However, Patterson (2004) argued that businesses must be cautious when using negative switching barriers. The use of negative switching barriers will not prevent dissatisfied customers from switching to another bank once the negative switching barrier no longer exists. Colwell and Hogarth-Scott (2004) argued that 'hostage' behavior would decrease the likelihood of long-lasting relationships between customers and businesses because customers would exit the business once they no longer feel hostage to the relationship. For instance, if a customer has a loan that prevents them from exiting a bank. This would actually make them likely to change banks once the loan is paid off. As well, the research shows that such barriers could have an adverse impact on customer evaluation of service recovery efforts, perhaps, because they are being 'forced' to stay. Such a finding implies that Chilean banks would do better by investing more time and effort attempting to create positive and long-lasting relationships with their customers using value-based marketing messages and reassuring customers about their organizational credibility and the value of their relationship. Marketing engages with many practices

that can bolster the banks image in the eyes of customers, for example, corporate sponsorship, corporate image advertising campaigns and associating the brand with ethical and superior business practices. Besides this, Jones et al. (2000) mentioned that negative and punitive switching barriers would not work in the long-term if dissatisfaction is ongoing because dissatisfied customers might engage in negative word of mouth or communication sabotage.

The implications of these findings for service provision in the banking industry support the findings of Ranaweera and Prabhu (2003), that businesses should implement policies and procedures to retain their customers by creating switching barriers that add value to their services. To develop these barriers, banks may promote customers to become co-producers of value as suggested by the new theory of service-dominant logic (Gummerson, 2006; Kotler et al., 2003; Vargo and Lush, 2004). To do so, banks should make sure they are in constant communication with customers to improve the quality of the offering. Similarly, by taking a positive approach to branding the image of their services and delivering feelings of attachment based on trust and loyalty over time, the banking sector can ensure a more enduring segment of brand loyal customers. On the other hand, implementing negative brand switching policies that 'punish' the customer by preventing them switching to a competitor have a negative (Barlow and Moller, 1996; Lovelock et al., 2004) effect on the feelings customers have toward their bank. The tried and tested best practice model of delivering consistently superior customer service that will delight the customer is supported by the research. Further research, however, will need to be undertaken to see whether the product category itself (the banking industry) lends itself more to instrumental and rational customer decision-making for such services and whether the same results would be applicable in other service industry contexts.

7.5 LIMITATIONS OF THE PRESENT RESEARCH

As with any research undertaking, some methodological and theoretical limitations must be acknowledged.

In terms of methodology, respondents in the sample were not treated differently according to how they were classified by the bank in terms of their monetary value per head to the bank. This is an important limitation because banks may choose to treat individual customers differently according to the amount of money they are worth to the bank. However, the aims of the thesis were to clarify the dimensions of service recovery

and switching barriers in the Chilean industry per se. If Chilean bank managers choose to use the findings and apply them differently according to the net worth of individual customers they can now do so with confidence.

Second, the current investigation focused on the opinion of customers who have had an experience when complaining and did not consider the opinion of non-complaining customers. Consequently, as discussed in Chapter Two, the respondents in this study may have very specific attitudes towards complaining or specific personality types that lend themselves to complaint behaviour. The possible inherent bias of such group of respondents should be seen as a caveat to the study.

Third, regarding sample size, more than 50% of customers who participated in the study complained to Estado Bank. Because of this, the other Chilean banks may be under represented in the sample. It is important to mention that Estado Bank is a publicly-owned institution that is the major bank of the Chilean government. Hence the majority of Chileans have at least one product with this bank. Consequently, they are over-represented in this study. This limitation is somewhat benign because it is based on the reality that Estado Bank is by far the largest bank in Chile.

With regard to theoretical limitations, first, this study focused on the retail banking industry, so the results are valid for retail banking customers only. The way businesses perceive bank service recovery efforts was not considered in this study. Therefore, further research is needed to determine the dimensions that are important for businesses when evaluating the way banks handle complaints. Although it would not be advisable for the results to be generalized to other industries, the methodology used in this investigation may be useful for replication in other industries to obtain valid information to design mechanisms for handling complaints within those settings.

Finally, this study focused on the customers' perceptions only and did not consider the opinion of the bank employees. The perceptions of these two groups may differ in terms of the evaluation they make of bank service recovery efforts and the existence of switching barriers in the banking industry. The study also did not analyze the current strategies used by Chilean banks to keep their customers. These last two limitations may not be too problematic if the bank managers and their customers service teams can integrate such knowledge into the new strategies they design to improve service recovery processes.

7.6 FUTURE RESEARCH DIRECTIONS

Many of the suggestions for further research are related to the 'fine-tuning' of some of the service recovery dimensions and switching barriers. For instance, the current study did not consider a clear distinction in the type of compensation given to customers. Hence, future research could include different monetary and non monetary compensations to determine exactly how much compensation banks should give to their customers.

Regarding the service recovery evaluation component of 'time', the question that has to be answered is, "how much time?" are customers willing to wait to receive a solution to their problems. The scenario method considered only two alternatives of time that banks may take to solve a complaint: one week and one month. Considering this issue, different amounts of time could be used in future research which could allow determination of exactly how much time customers are willing to wait to receive an answer to their complaints.

Another service recovery dimension of importance to customers was 'customer time'. The study did not address the issue of how much of their own time customers are willing to spend looking for a solution to their complaints. The scenario method considered only two levels, 'a lot of time' and 'not much time'. Future research could widen these two concepts to have a more accurate picture of exactly how much time customers are willing to spend looking for a solution to their problems.

The interaction between the service recovery dimensions is another issue that could be addressed in future research. This investigation showed that Chilean customers consider six service recovery dimensions as important when evaluating service recovery efforts. However, the scenario method considered only four of those dimensions: customer time, complaint handling time and complaint outcome (e.g. compensation and reversing bank mistakes). Future research could consider the dimensions of treatment of customers and employees' power to make decisions in the study to determine if they interact with other service recovery dimensions, such as complaint outcome, customer time and complaint handling time. This could further validate the conclusions of this investigation related to the three and two way interactions between the service recovery dimensions.

Future research could also focus on the switching barrier construct. Such research might include other dimensions of switching barriers in the study. For instance, the classification of switching costs given by Yanamandram and White (2006) could be

used which divided switching costs into benefit-loss costs, pre-switching costs, post-switching costs, uncertainty costs and customer-service provider relationship costs. This would provide researchers with rich data on what customers perceive as 'costs' to them in the process of switching banks.

In terms of the relationship between switching barriers and service recovery, future studies could use a different approach or methodology similar to the scenario method used in this investigation to determine if there a relationship exists between these two constructs. Such a study could further validate and strengthen the findings of this research and lead to increased confidence amongst researchers about the construct developed in this study.

Finally, the current research focused only on a South American country. The conclusions are based on a sample of Chilean customers, so they are only representative of that particular cultural context and cannot be generalised to all countries in the world. This makes the issues under study 'context dependent' meaning that they may be important for customers from South American countries but not for customers in different cultural contexts. This is both a strength and a limitation of the study. However, for the constructs developed in this study to be truly generalizable they would have to be applied in varying cultural contexts. Future research should also focus on determining the cultural antecedents variables that might impact the evaluation of service recovery and switching barriers.

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Appendices

Appendix 1A

IN DEPTH INTERVIEWS: QUESTIONS



Faculty of Economics, Business and Law
New England Business School
Armidale, NSW 2351, Australia
Telephone: 61-2-6773 3398
Electronic Mail: fvalenzu@une.edu.au

Ref: PhD Research Project – In depth interview: Questions

Best Experience

1. Would you mind telling all the details of the best experience that you have had when complaining? (Time frame, product, etc.)
2. What aspect of the way your bank handled your complaints made you very satisfied?
3. What could have been done by your bank for you to feel even more satisfied?

Worst Experience

4. Would you mind telling all the details of the worst experience that you have had when complaining?
5. What aspect of the way your bank handled your complaints made you very dissatisfied?
6. What could have been done by your bank for you to feel more satisfied?

Switching Behavior

7. Have you ever thought about switching to another bank?
8. If you haven't switched banks, why not?
9. Do you do all of your banking with this bank?
10. Why do (not) you do all your banking with this bank?

Appendix 1B

INFORMATION SHEET FOR PARTICIPANTS (Interviews)



Faculty of Economics, Business and Law
New England Business School
Armidale, NSW 2351, Australia
Telephone: 61-2-6773 3398
Electronic Mail: fvalenzu@une.edu.au

Ref: PhD Research Project – In depth interview

This interview is part of a doctorate research project conducted by me as a PhD student at the New England Business School at the University of New England, Australia, under the supervision of Dr Jennifer Rindfleish (Phone: +61 2 6773 2552; Email: jrindfle@une.edu.au) and Dr David Pearson (Phone: +61 2 6773 3889; Email: dpearson@une.edu.au). This interview is being conducted with 25 people who will be recruited either in the foyer of a bank or on the street. Each interview will take 30 minutes.

The purpose of the interview is to obtain a better understanding of the factors influencing customers' evaluations of the way firms handle complaints. Results of this study will help banks to improve their handling of complaints and will be published in international marketing journals.

We invite you to participate in this in-depth interview whose participation is strictly voluntary. You may withdraw your participation at any time. All answers will be confidential to the researcher and his supervisor. Your name will in no way be connected to any responses you choose to provide. The data will be destroyed after five years.

If you have any queries please ask the researcher during the interview. If you have any more questions about the study, please feel free to contact me at the above telephone number/e-mail address. Thank you very much in advance for your participation.

Yours sincerely,

Fredy Valenzuela

Note: This research project has been approved by the Human Research Ethics Committee of the University of New England (Approval No: HE05/006).

Please retain this sheet for your information. Should you have any complaints concerning the manner in which this research is conducted, please contact the Research Ethics Officer at the following address: Research Services, University of New England, Armidale, 2351, NSW, Australia.
Telephone: 61-2-6773 3449, Facsimile 61-2-6773 3543, E-mail ethics@une.edu.au

Appendix 2A

QUESTIONNAIRE

FIRST PART

1. Have you ever been dissatisfied with one of the banks where you have (*had*) a product(s)? (E.g. chequing account, credit card, credit line, mortgage, etc)

Yes ___ No ___ (if not, thanks for your participation)

2. Have you ever complained (formally or informally) to one of your banks?

Yes ___ No ___ (if not, thanks for your participation)

3. In relation to the last time that you complained to your bank, what was the reason for your complaint?

4. How satisfied were you with the bank's handling of the complaint?

- a) Very Satisfied _____
- b) Satisfied _____
- c) Neither Satisfied nor dissatisfied _____
- d) Dissatisfied _____
- e) Very Dissatisfied _____

5. In this part of the survey please refer to the last time that you complained to a bank. For each of the statements below first indicate how important are those attributes for you when complaining (from not important to highly important) and second evaluate the performance of the bank's handling of your complaint in that particular attribute (from Very Poor to Very Good). To do that, use the following scale:

LEVEL OF IMPORTANCE					BANK'S PERFORMANCE				
1	2	3	4	5	1	2	3	4	5
Not Important	Low Importance	Medium Importance	Very Important	Highly Important	Very Poor	Poor	Neither Poor nor Good	Good	Very Good

Sr1. The opportunity the bank gave me to tell my side of the story	1	2	3	4	5		1	2	3	4	5
Sr2. The opportunity the bank gave me to have a say in the outcome of the complaint	1	2	3	4	5		1	2	3	4	5
Sr3. The ease of determining where to lodge my complaint	1	2	3	4	5		1	2	3	4	5
Sr4. The bank's willingness to adapt their complaint handling procedures to satisfy my needs	1	2	3	4	5		1	2	3	4	5
Sr5. The quickness in the way the complaint was taken care of	1	2	3	4	5		1	2	3	4	5
Sr6. The time I spent to get a solution to my problem	1	2	3	4	5		1	2	3	4	5
Sr7. The effort I had to put in to get a solution to my problem	1	2	3	4	5		1	2	3	4	5
Sr8. The speed of the bank's response to my complaint	1	2	3	4	5		1	2	3	4	5
Sr9. The power of the bank employee to whom I complain to solve the problem	1	2	3	4	5		1	2	3	4	5
Sr10. The fairness of the guidelines used by the bank to process my complaint	1	2	3	4	5		1	2	3	4	5
Sr11. The honesty of the bank in solving the complaint	1	2	3	4	5		1	2	3	4	5
Sr12. The courtesy of the bank employees	1	2	3	4	5		1	2	3	4	5
Sr13. The positive energy that the bank put into handling my problem	1	2	3	4	5		1	2	3	4	5
Sr14. The bank employees caring about my problem	1	2	3	4	5		1	2	3	4	5
Sr15. The way bank employees who dealt with my complaint dressed	1	2	3	4	5		1	2	3	4	5
Sr16. The level of employees' communications with me	1	2	3	4	5		1	2	3	4	5
Sr17. The information the bank provided me during the complaint process	1	2	3	4	5		1	2	3	4	5
Sr18. The information the bank gave me once the problem was solved	1	2	3	4	5		1	2	3	4	5
Sr19. The explanation the bank gave me as to what happened	1	2	3	4	5		1	2	3	4	5
Sr20. In general the relationship that I had with the employees who dealt with my complaint	1	2	3	4	5		1	2	3	4	5
Sr21. The reversal that the bank did of its mistake	1	2	3	4	5		1	2	3	4	5

Sr22. The compensation the bank gave me for my financial losses	1	2	3	4	5		1	2	3	4	5
Sr23. The compensation the bank provided me for all the bother I went through due to the complaint	1	2	3	4	5		1	2	3	4	5
Sr24. The “I am sorry” I received from the bank	1	2	3	4	5		1	2	3	4	5
Sr25. The range of possibilities the bank provided me with to solve my problem	1	2	3	4	5		1	2	3	4	5
Sr26. What I got due to the complaint	1	2	3	4	5		1	2	3	4	5
Sr27. The way that my complaint was solved	1	2	3	4	5		1	2	3	4	5
Sr28. The service provided by the bank after my complaint	1	2	3	4	5		1	2	3	4	5

“We remind you that you are evaluating the last time you complained to a bank”

Sr29. The way the bank allowed me to give my opinion about the complaint	1	2	3	4	5		1	2	3	4	5
Sr30. The way the bank let me participate in the decision regarding the complaint	1	2	3	4	5		1	2	3	4	5
Sr31. The clarity of bank policies regarding how to complain	1	2	3	4	5		1	2	3	4	5
Sr32. The flexibility of bank policies for taking care of my complaint	1	2	3	4	5		1	2	3	4	5
Sr33. The length of time it took to address my complaint	1	2	3	4	5		1	2	3	4	5
Sr34. The time I had to spend to get my problem solved	1	2	3	4	5		1	2	3	4	5
Sr35. The effort I had to put in to get my problem solved	1	2	3	4	5		1	2	3	4	5
Sr36. The quickness of the complaint handling process in this bank	1	2	3	4	5		1	2	3	4	5
Sr37. A reduced number of bank employees to whom I had to complain to in order to be noticed	1	2	3	4	5		1	2	3	4	5
Sr38. The fairness of the bank guidelines for listening to and handling customer complaints	1	2	3	4	5		1	2	3	4	5

Sr39. The reliability of employees dealing with the complaint	1	2	3	4	5		1	2	3	4	5
Sr40. The pleasantry of the bank employees	1	2	3	4	5		1	2	3	4	5
Sr41. The effort the bank went to to guarantee my satisfaction	1	2	3	4	5		1	2	3	4	5
Sr42. The degree of concern that the employees who handled my complaint showed about my problem	1	2	3	4	5		1	2	3	4	5
Sr43. The tidy and professional environment that the bank employees who dealt with complaint worked in	1	2	3	4	5		1	2	3	4	5
Sr44. The clarity of feedback about my complaint	1	2	3	4	5		1	2	3	4	5
Sr45. The information that the bank employee gave me about how my complaint was progressing	1	2	3	4	5		1	2	3	4	5
Sr46. The information the bank gave me regarding the complaint decision	1	2	3	4	5		1	2	3	4	5
Sr47. The explanation given by the bank regarding the problem	1	2	3	4	5		1	2	3	4	5
Sr48. Overall, I consider that the personal relationship with the employees who dealt with my complaint	1	2	3	4	5		1	2	3	4	5
Sr49. The resolution of bank's mistake and consequences	1	2	3	4	5		1	2	3	4	5
Sr50. The way the bank addressed the financial losses that I incurred due to its mistake	1	2	3	4	5		1	2	3	4	5
Sr51. The compensation the bank gave me for all the bad times I had due to the complaint	1	2	3	4	5		1	2	3	4	5
Sr52. The apology the bank gave me	1	2	3	4	5		1	2	3	4	5
Sr53. The creative solutions the bank gave me to address my problem	1	2	3	4	5		1	2	3	4	5
Sr54. The efforts the bank made to replace my losses	1	2	3	4	5		1	2	3	4	5
Sr55. The bank's handling of the particular problem	1	2	3	4	5		1	2	3	4	5
Sr56. The changes done by the bank to ensure the mistake does not happen again	1	2	3	4	5		1	2	3	4	5

“We remind you that you are evaluating the last time you complained to a bank”

Sr57. The opportunity the bank gave me to express my views about the complaint	1	2	3	4	5		1	2	3	4	5
Sr58. The way the bank allowed me to give my opinion regarding the outcome of the complaint	1	2	3	4	5		1	2	3	4	5
Sr59. The ease to figure out where to complain in this bank	1	2	3	4	5		1	2	3	4	5
Sr60. The bank flexibility in looking for a solution to the complaint	1	2	3	4	5		1	2	3	4	5
Sr61. The time the bank took to let me know that they received my complaint	1	2	3	4	5		1	2	3	4	5
Sr62. The time I spent looking for a solution to the complaint	1	2	3	4	5		1	2	3	4	5
Sr63. The effort I had to put in looking for a solution to the complaint exceeded my expectations	1	2	3	4	5		1	2	3	4	5
Sr64. The bank's speed responding to my complaint	1	2	3	4	5		1	2	3	4	5
Sr65. A reduced number of bank employees involved in solving my problem	1	2	3	4	5		1	2	3	4	5
Sr66. The fairness of the process for solving my problem	1	2	3	4	5		1	2	3	4	5
Sr67. The truthfulness of the bank's employees	1	2	3	4	5		1	2	3	4	5
Sr68. The respect that I was treated with by bank employees	1	2	3	4	5		1	2	3	4	5
Sr69. The effort the bank went to to ensure my satisfaction	1	2	3	4	5		1	2	3	4	5
Sr70. The employee's understanding of the complaint	1	2	3	4	5		1	2	3	4	5
Sr71. The cleanliness of bank employees who handled my complaint	1	2	3	4	5		1	2	3	4	5
Sr72. The clarity to express themselves of employees who dealt with the complaint	1	2	3	4	5		1	2	3	4	5
Sr73. The information the bank gave me about the complaint at different stages	1	2	3	4	5		1	2	3	4	5
Sr74. The information the bank provided me about the outcome of my complaint	1	2	3	4	5		1	2	3	4	5
Sr75. The explanation given by the bank of why the problem occurred	1	2	3	4	5		1	2	3	4	5
Sr76. Considering the whole complaining process, I	1	2	3	4	5		1	2	3	4	5

think that the behavior of the bank employees who dealt with my complaint										
Sr77. The outcome of the complaint	1	2	3	4	5	1	2	3	4	5
Sr78. The monetary compensation the bank provided me to cover my financial losses	1	2	3	4	5	1	2	3	4	5
Sr79. The compensation the bank gave me for all the time I spent dealing with the complaint	1	2	3	4	5	1	2	3	4	5
Sr80. The apology I received from the bank	1	2	3	4	5	1	2	3	4	5
Sr81. The different solutions the bank looked for to solve my problem	1	2	3	4	5	1	2	3	4	5
Sr82. The solution given by the bank	1	2	3	4	5	1	2	3	4	5
Sr83. The way the bank met all reasonable requirements associated with the complaint resolution process	1	2	3	4	5	1	2	3	4	5
Sr84. The effort made by the bank to avoid this problem happening again	1	2	3	4	5	1	2	3	4	5

SECOND PART

In this part of the survey, please state if you agree or disagree with each of the statements relative to the bank where you made the complaint. To answer, please use the following scale:

1	2	3	4	5
Strongly agree	Agree	Neither Agree nor disagree	Disagree	Strongly disagree

1. There are few other banks that are realistic alternatives for me.	1	2	3	4	5
2. It is difficult for me to use other banks	1	2	3	4	5
3. It would be complicated for me to change banks	1	2	3	4	5
4. It takes a lot of time to get information about other banks	1	2	3	4	5
5. I am concerned about negative financial outcomes of switching to another bank	1	2	3	4	5
6. I feel locked into this bank because of the products that I have	1	2	3	4	5
7. All banks are the same	1	2	3	4	5
8. If I were to choose another bank I do not know what I will get	1	2	3	4	5

9. I feel uncertain about whether other banks can give the same service as this one.	1	2	3	4	5
10. I feel secure in the hands of this bank	1	2	3	4	5
11. I have every confidence in this bank	1	2	3	4	5
12. I trust this bank	1	2	3	4	5
13. I respect this bank	1	2	3	4	5
14. This bank caters well to my financial needs	1	2	3	4	5
15. This bank is a reliable organization	1	2	3	4	5
16. This bank is a very credible bank	1	2	3	4	5
17. This bank gives good value for money	1	2	3	4	5
18. I like to build a relationship with the people at this bank	1	2	3	4	5
19. I know the people in this bank	1	2	3	4	5
20. I like the people in this bank	1	2	3	4	5
21. I enjoy being recognized at this bank	1	2	3	4	5
22. I have got a good rapport with people in this bank	1	2	3	4	5
23. I support the ethical policies and practices of this bank	1	2	3	4	5
24. I approve of this bank's investment policy	1	2	3	4	5
25. I share the same values as this bank	1	2	3	4	5
26. I have confidence that my bank provides the best deal	1	2	3	4	5
27. My bank knows my needs	1	2	3	4	5
28. I receive preferential treatment from this bank	1	2	3	4	5
29. I feel a sense of loyalty to this bank	1	2	3	4	5

THIRD PART

Below a hypothetical complaint situation is presented. Please read the following statement and then answer the questions relative to it.

Checking your bank statement you realize that the bank charged you \$100 for credit card maintenance fees, but when you opened your credit card your customer services officer told you that you would not have to pay such a charge. You go to the bank and complain to your customer services officer. *(You spend a lot of time talking to your customer services officer on several occasions either by phone, personally or by e-mail / You talked to your customer services officer on only one occasion and he tells you that in one more week the bank will tell you the outcome of your complaint)* and after *(one week / one month)* your customer services officer tells you that *(the charge would not be reverted / the charge would be reverted / the charge would be reverted and you would not have to pay chequing account maintenance fees for one year for the bother).*

1. Based on the above hypothetical complaint situation, please answer how much you agree or disagree with each of the following statements. To answer, please use the following scale:

1	2	3	4	5
Strongly agree	Agree	Neither Agree nor disagree	Disagree	Strongly disagree

1. Taking everything into consideration, the outcome I received was fair	1	2	3	4	5
2. In resolving the problem, the bank did not give me what I needed?	1	2	3	4	5
3. The bank agent was quick in dealing with my problem	1	2	3	4	5
4. The length of time taken to resolve my problem was longer than necessary	1	2	3	4	5
5. I spent more of my own time than necessary to get a solution to my problem	1	2	3	4	5
6. The time I had to spend to get my problem solved was too long	1	2	3	4	5
7. I feel satisfied with the company's handling of the problem	1	2	3	4	5

2. How satisfied would you be with the bank's handling of the problem?

- a) Very Satisfied _____
- b) Satisfied _____
- c) Neither Satisfied nor dissatisfied _____
- d) Dissatisfied _____
- e) Very Dissatisfied _____

FOURTH PART

1. To which bank did you last complain? _____

2. What products do (did) you have with that bank? Mention all products that you have.

- a) Chequing Account _____
- b) Credit Line _____
- c) Credit Card _____
- d) ATM card _____
- e) Mortgage _____
- f) Investment _____
- g) Others _____

3. How long have you been (were you) a client of this bank? _____ months

4. Gender

- a) Male _____
- b) Female _____

5. What is your highest level of education?

- a) Primary School _____
- b) Secondary School _____
- c) Undergraduate _____
- d) Postgraduate _____

6. What is your occupation? _____

Name: _____

Phone Number: _____

Thanks for Participating in this Survey!!!

Appendix 2B

INFORMATION SHEET FOR PARTICIPANTS (Survey)



Faculty of Economics, Business and Law
New England Business School
Armidale, NSW 2351, Australia
Telephone: 61-2-6773 3398
Electronic Mail: fvalenzu@une.edu.au

Ref: PhD Research Project – Survey

This interview is part of a doctorate research project conducted by me as a PhD student at the New England Business School at the University of New England, Australia, under the supervision of Dr Jennifer Rindfleish, Dr David Pearson and Roger Epworth. This interview is being conducted with 720 people who will be intercepted as they are entering or exiting a bank. Each interview will take 20 minutes.

The purpose of the interview is to obtain a better understanding of the factors influencing customers' evaluations of the way firms handle complaints. Results of this study may help banks to improve their handling of complaints and will be published in international academic marketing journals.

We invite you to participate in this survey, whose participation is strictly voluntary. You may withdraw your participation at any time. All answers will be confidential to the researcher and his supervisor. Your name will in no way be connected to any responses you choose to provide. The data will be destroyed after five years. We remind you that by answering the questionnaire you will be consenting to participate in this research.

If you have any queries please ask the researcher during the interview. If you have any more questions about the study, please feel free to contact me at the above telephone number/e-mail address. Thank you very much in advance for your participation.

Yours sincerely

Fredy Valenzuela

Note: This research project has been approved by the Human Research Ethics Committee of the University of New England (Approval No:HE05/006).

Please retain this sheet for your information. Should you have any complaints concerning the manner in which this research is conducted, please contact the Research Ethics Officer at the following address: Research Services, University of New England, Armidale, 2351, NSW, Australia.

Telephone: 61-2-6773 3449, Facsimile 61-2-6773 3543, E-mail ethics@une.edu.au