AN EMPIRICAL STUDY OF CLIENT SATISFACTION WITH SERVICE RECOVERY WITHIN A SOUTH AFRICAN BANKING INSTITUTION

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DISSERTATION TITLE PAGE

1. TITLE:	An Empirical study of client satisfaction with Service Recovery within a South African Banking Institution.
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DECLARATION

I, GARETH MERVYN DAVIES, do hereby declare that this research report, entitled “An Empirical study of client satisfaction with Service Recovery within a South African Banking Institution” is my original work.

All sources used or referred to have been documented and cited.

I further declare that this research report, or any part of it, has not been submitted in the past or will be in the future, for degree or other purposes, to any other educational institution.

GARETH MERVYN DAVIES JANUARY 2004

ABSTRACT

In many industries, service is the critical determinant of success or failure. Service failure is almost inevitable, and this has the potential for the organisation to lose its customer. However, if implemented successfully, Service Recovery can rectify the breakdown in service, and turn angry, frustrated customers into loyal ones. Service Recovery is vital for profitability, especially for companies operating in the services market, like First National Bank (FNB). Unfortunately, few service firms know how satisfied customers are with their Service Recovery efforts, and FNB is no exception. This study attempted to rectify the situation, to ensure that the bank does not fail its customers a second time.

The major focus of the study is to assess client satisfaction with Service Recovery (SR) from FNB. By using the RECOVSAT instrument (developed by Boshoff in 1999), the study aims to establish how effective FNB was in terms of the six dimensions of SR, namely communication, empowerment, feedback, atonement, explanation, and tangibles. The relationship between each of the dimensions and customer satisfaction, as well as between customer satisfaction and loyalty, was measured, and a hypothesis for each relationship rejected or accepted.

The empirical results show that, from 702 complainants, a RECOVSAT score of 68% was computed, which could be regarded as only satisfactory. The dimensions of communication, explanation, atonement, and empowerment, had the strongest

positive correlation with customer satisfaction, while feedback and tangibles, although positively correlated, were not statistically significant, and thus not as important as the first four dimensions. FNB performed best on tangibles (81%), then communication (75%), explanation (70%), atonement (68%), empowerment (62%), and lastly feedback (51%).

The study reinforced the view that customer satisfaction is positively related to loyalty. Other findings were that, administration and errors were the most frequent complaints, followed by pricing, fees, and interest, while time delays/waiting were the third most numerous. Over 54% of complainants had been with the bank for over 10 years, which could be a problem if the customers had left the bank, as the profitability of a customer generally increases with time. Age and gender did not appear to be factors that influenced behaviour of complainants.

In terms of the managerial implications, it is recommended that FNB implement a Customer-Complaint-Handling (CCH) system that is both national and inter-group. The bank should also focus on empowering employees, improving communication skills, explaining to customers why the problem occurred, apologising, and offering some atonement.

By adopting the recommendations, FNB should improve their service recovery, and as a consequence, their customer satisfaction and loyalty, and profitability should also increase.

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- *A rose given during life is better than orchids on the grave – Unknown.*
- *Gratitude springs from remembering the ones who helped you, not the ones you helped – Unknown.*

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CHAPTER 1: INTRODUCTION AND OVERVIEW

"A customer is the most important visitor to our premises. He is not dependent on us, we are dependent on him. He is not an interruption of our work, he is the purpose of it. He is not an outsider in our business, he is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so."

Mahatma Gandhi

(1869 – 1948)

1.1 INTRODUCTION

In many industries, service is the critical determinant of success or failure. Service failure is almost inevitable, and this has the potential for the organisation to lose its customer. However, if implemented successfully, service recovery can rectify the breakdown in service, and turn angry, frustrated customers into loyal ones. Retention of customers is far more profitable than new client acquisition.

Service recovery is vital for profitability, especially for companies operating in the services market, like banking institutions. Unfortunately, few service firms know how satisfied customers are with their service recovery efforts, and First National Bank (FNB) is no exception. This study attempts to rectify the situation, to ensure that FNB does not fail its customers a second time.

1.2 MAIN RESEARCH PROBLEM

The field of research for this study was service recovery, which refers to the actions a service provider takes in response to service failure (Kelley and Davis, 1994:52), and which forms part of the services marketing environment. This study investigated the effectiveness of service recovery in FNB (a large South African retail bank) by examining various service recovery dimension results, and their relationship to client satisfaction.

FNB is one of South Africa's "big four" commercial banks, and, although banks compete on product differentiation, price, and distribution networks, the advantage one bank has over another is very slight. However, in the end, in a service industry environment like banking, service is the key differentiator.

Service has, as its focus, the task of getting things right the first time. According to Jones and Sasser (1995:89), complete customer satisfaction is the key to securing customer loyalty, and to generating superior long-term financial performance. However, in service delivery, things often do go wrong, irrespective of systems, people, or processes. "Mistakes are a critical part of every service …. errors are inevitable" (Hart, Heskett and Sasser, 1990:148). In recent years there has been an emphasis on "doing it very right the second time" (Zemke and Bell, 1990; Berry and Parasuraman, 1991). Bitner, Boom and Tetreault (1990) showed that service failure can create satisfied customers, if the response to the service failure is appropriate.

Service and service recovery are very important for customer satisfaction and for the profitability of the company. Empirical studies in South Africa have shown that firms fall short of customer expectations, and sometimes fail a second time, by applying inappropriate service recovery strategies. Unfortunately, many service firms often do not assess a customer's satisfaction after an attempt to recover from a service failure. As effective service recovery is important for successful relationship marketing (which is vital in retail banking), it is important to assess how well FNB meets its clients' expectations when they complain.

Research by Boshoff (1999) has shown that satisfaction with service recovery consists of six dimensions. When clients complain they expect:

- the service firm to communicate with them effectively;
- the person they complain to, to solve their problem (empowerment);
- to receive written feedback about the progress being made to solve the problem;
- to receive an apology and be ensured that they are not left “out-of-pocket”;
- to receive an explanation of how and why the problem occurred; and
- employees with whom they interact, to be professionally dressed, and to work in a professional environment.

According to Boshoff (1999:237), service firms that suffer service failures need to know what customers expect in response to service failure.

This leads to the main problem to be researched:

- How satisfied are FNB’s clients with the service recovery dimensions, and do these dimensions have a positive relationship with customer satisfaction that leads to longer-term loyalty?

By using the Recovsat instrument, the present research aims to establish how effective FNB is in terms of the six dimensions of service recovery, namely communication, empowerment, feedback, atonement, explanation, and tangibles. Furthermore, the relationship between each of the dimensions and customer satisfaction will be measured, and a hypothesis for each relationship will be tested. A further measurement will be the relationship between satisfaction and loyalty, and a hypothesis will also be rejected or accepted.

A secondary goal of this study is that the Recovsat instrument will be subjected to psychometric assessment, in the sense that the reliability and construct validity will be evaluated.

1.3 RESEARCH SUB-PROBLEMS

In order to deal with the main problem, a number of sub-problems will be addressed.

The sub problems are:

- What is meant by the South African Banking Industry? This is covered in Chapter 2.
- What is quality customer service, and what are customers' needs and expectations? This is addressed in Chapter 3.
- What constitutes service failure, service recovery, and satisfaction (meeting customers expectations)? This will be addressed in Chapter 4.

1.4 RESEARCH METHODOLOGY

In this study, customers of FNB were selected as part of a sample, to assess how effective this bank was in satisfying their needs in respect of service recovery.

Clients who had complained to the Bank's branches or to Head Office between October 2002 and March 2003 were selected.

The measuring instrument used was the RECOVSAT questionnaire, developed by Boshoff in two empirical studies in New Zealand. The questionnaire had a series of 20 statements which respondents were asked to rate, using a 5-point Likert scale (ranging from *strongly disagree* to *strongly agree*). The questionnaires were administered telephonically.

The results were tested for validity and reliability, and then the relationship between the independent variables and satisfaction was assessed by way of multiple regression analyses. A Recovsat score for the Bank was calculated, as well as a rating for each independent variable.

1.5 DELIMITATION OF RESEARCH

The delimitation of the research ensures that it is focused, and that appropriate boundaries are set.

The research was limited to one retail bank, but carried out on a national basis with clients whose accounts were with branches in metropolitan areas. The study focused on one aspect of customer service namely service recovery, and examined how effective this one bank was, in terms of the six dimensions of service recovery, in ensuring client satisfaction.

1.6 IMPORTANCE OF THE RESEARCH

The importance of establishing the level of client satisfaction with service recovery within FNB is clear, as those firms who are successful in service recovery will have a competitive advantage, which will assist in ensuring their survival. Good service recovery – the kind that retains customers – is worthwhile, as it has a powerful impact on profitability.

Studies by the American consultants, Bain and Company, into the relationship between service, customer satisfaction, and profitability, have shown a direct and positive link between high customer retention rates and increased profitability (Clutterbuck, Clark and Armistead, 1993:133). This is also borne out by Fornell and Wernerfelt (1987), while research by Berry and Parasuraman (1991) shows that customer loyalty drives profitability, and makes complaint-handling a critical "moment of truth" in maintaining and developing these relationships. Service and service recovery are thus very important for customer satisfaction, loyalty, and the profitability of the company.

This study is the first time that the Recovsat instrument has been used to assess satisfaction with service recovery in the banking industry, and the first time that it has been administered to customers who have actually complained to a service provider. As such, it will add new insights to our understanding of satisfaction with service recovery. The two previous empirical studies were done in the retail industry in New Zealand, to assess customers' expectations of service recovery.

The value of the research is that, through Recovsat, a satisfaction score with service recovery for overall performance will be measured, as well as for each dimension of service recovery, namely communication, empowerment, feedback, atonement, explanation, and tangibles, as well as their importance for future loyalty. Furthermore, strategies will be proposed that may improve the Bank's service recovery efforts at the dimension level.

1.7 STRUCTURE OF THE RESEARCH REPORT

The report is divided into four sections, containing chapters, which are briefly described below.

SECTION 1: Introduction

Chapter 1: Introduction and Overview

This chapter presents an introduction and overview of the research. The main research problem and sub-research problems are presented, as well as the research methodology that was followed. The key concepts are defined, and the delimitations of the research outlined. Finally, the importance of the research is discussed.

SECTION 2: Literature Review

Chapter 2: The South African Banking Industry

This provides an overview of the industry, the competitors, market shares, and forces driving the business. Banking supervision is discussed, the challenges facing banks, the competitive nature of the industry, and the differentiator, this being customer service.

Chapter 3: Customer Service

This covers the questions: What is customer service? and How do we retain customers? The links between service and profit, and between service quality and customer needs and expectations, are also discussed. FNB's service assessment from other research is also evaluated.

Chapter 4 : Service Recovery

Service Recovery is defined, and its importance and benefits discussed, as well as the costs of failing to recover. Service failure is analysed, and customer expectations in service recovery are examined. This chapter considers internal service recovery, as well as potential complaint-handling strategies.

The literature survey examines the field of service recovery in some detail. Previous research, journal articles, books and the Internet were consulted, to place the subject matter in perspective. Research conducted by the Banking Adjudicator, as well as FNB's internal research, are discussed and evaluated.

SECTION 3: The Empirical Study

Chapter 5: Research Methodology

This chapter covers an empirical study of client satisfaction with service recovery, using the Recovsat instrument. The research objectives, sample, questionnaire design and data collection process are presented, as well as the statistical techniques utilised.

SECTION 4: Results and Discussion

Chapter 6: Analysis and Interpretation of the Empirical Study.

The empirical results are presented and analysed in terms of each independent variable and the dependent variables of satisfaction and loyalty. The hypotheses are proposed, and either accepted or rejected. The demographic information of the realised sample is presented, as well as the nature of the customer complaints lodged with the bank by the respondents who participated in the study.

Chapter 7: Managerial Implications and Recommendations

In this final chapter, based on the empirical results, the implications for management are addressed, and recommendations are made for FNB, on how to improve their service recovery and, by implication, customer service. The limitations of the study are highlighted and areas for further research are proposed.

SECTION 2: LITERATURE REVIEW

CHAPTER 2: THE SOUTH AFRICAN BANKING INDUSTRY

2.1 INTRODUCTION

Over the past decade, the South African Banking Industry has undergone substantial changes. New legislation and controls have been introduced, competition has arisen from foreign banks as well as non-bank entities, and customers have become more aware of their rights, and are demanding more sophisticated products and higher levels of service.

To remain viable, banks have to become more competitive and deliver outstanding service, to differentiate themselves from the many other participants in the marketplace.

The objective of this chapter is to set the scene by providing a brief overview of the South African Banking Industry and thus addressing the first sub-problem – "What is meant by the South African Banking Industry?"

2.1 AN OVERVIEW OF THE SOUTH AFRICAN BANKING INDUSTRY

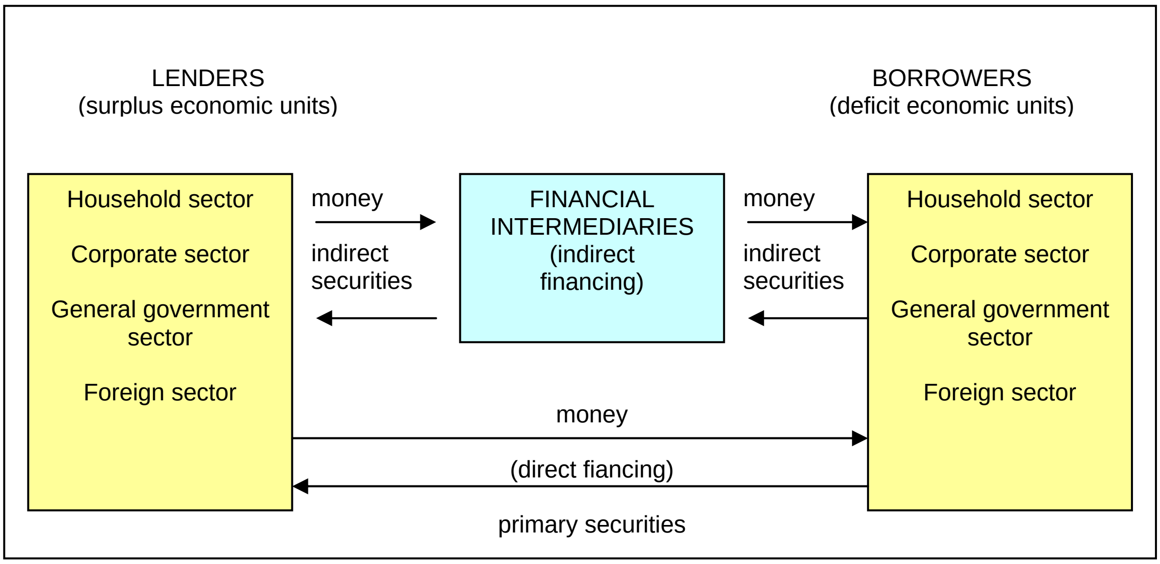
In any financial system, there are some parties with surplus economic units, and some with deficit economic units. A financial intermediary creates a market in two types of financial instruments, namely one type for borrowers, and another for lenders.

Fourie, Falkena and Kok's (1999:6) proposed structure of the financial system is diagrammatically represented in Figure 2.1 below:

FIGURE 2.1

THE FINANCIAL SYSTEM

THE FINANCIAL SYSTEM (FINANCIAL INTERMEDIATION)



In South Africa, financial institutions may be classified as deposit intermediaries (such as banks, South African Reserve Bank, Land and Agricultural Bank or Mutual Banks) or non-deposit intermediaries (such as insurers or pension and provident funds).

2.2.1 South African Banking Industry Structure

2.2.1.1 South African Reserve Bank

Because of its colonial history, South Africa has a well-developed banking sector that has conservative regulatory and legal infrastructures with product disclosure practices. The South African Reserve Bank is the country's central Bank and is regulated in terms of an Act of Parliament. According to Fourie et al (1999:53), it has the following main functions:

- the issuing of banknotes and coins;
- acting as a banker to the government;
- acting as a bank to other banks;

- providing facilities for the clearing and settlement of claims between banks;
- acting as custodian of the country's gold and other foreign reserves;
- acting as "bank of rediscount" and "lender of last resort";
- engaging in public debt management and open market operations;
- supervising banks;
- collecting, processing and interpreting economic statistics and other information, and
- formulating and implementing monetary and exchange rate policies in co-operation with the Ministry of Finance.

Within the Reserve Bank is a division for bank supervision. This division is responsible for all registrations of institutions as banks, as well as for applying all aspects of the act that governs banks, namely the Bank Act. Thus the Reserve Bank's supervision division creates a legal and regulatory environment to effectively manage risk in banks.

2.2.1.2 Other Banks

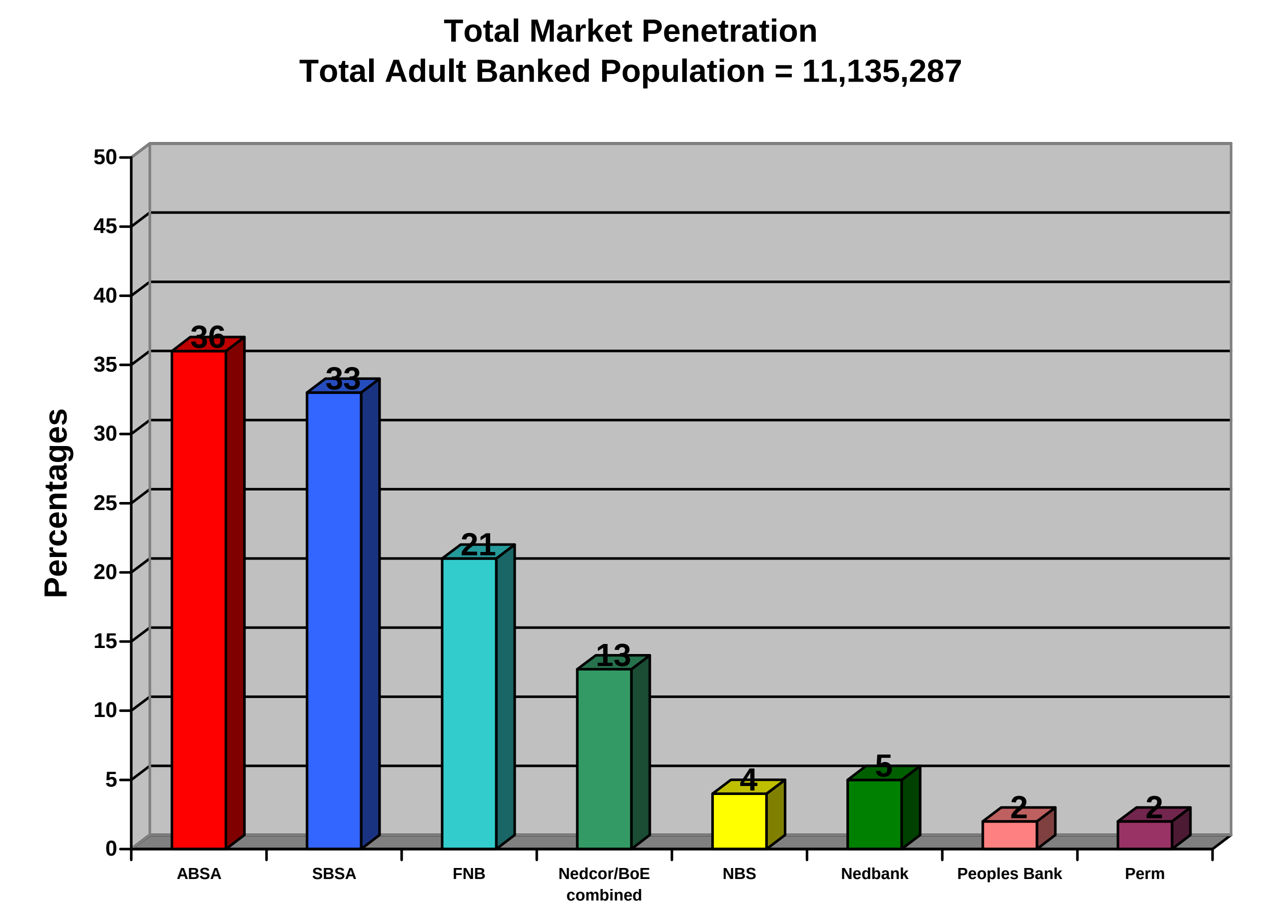
In South Africa, the market is dominated by a few large groups, known as the "big four". These are ABSA, Standard Bank, FNB, and Nedcor. Their market shares as per Total Assets as at 30 April 2003, were 20.74%, 22.75%, 17.69% and 20.24% respectively. Thus these banks control 81.42% of the total assets in the South African banking sector. The next biggest bank is Investec at 3.71%. Annexure A gives the Quarterly DI-900 Analysis of the individual banks in South Africa. Notwithstanding the dominance of a few big banks, at the beginning of 2002 there were 58 licensed deposit-taking institutions, comprising 33 domestic-controlled banks, 8 foreign-controlled banks, 2 mutual banks, and 15 local bank branches of foreign banks. In addition, 55 foreign bank representative offices were operational in South Africa - KPMG (2002:1).

The big four banks are well established institutions with national representation. They offer comprehensive products and services through branches, ATMs, and electronic banking, and have a broad customer base. From the AMPS statistics for 2002, the adult banked population was 11 135 287, with ABSA having 36% market share, Standard 33%, FNB 21%, and Nedcor/BOE combined 13% (See Figure 2.2 - below).

According to the KPMG 2002 Banking Survey report, there is one branch for every 9 500 people, or one branch for every 3 200 people if the unbanked segment of the population is excluded.

In terms of accounts, the big four banks hold 25.7 million accounts of the 27.2 million retail accounts held (PricewaterhouseCoopers, 2003:10).

FIGURE 2.2



Source: AMPS 2002

2.2.2 Profitability

During the second half of the 1990s, South African Banks achieved good profits, together with stability and diversity of profit generation. This profitability is not as high as other emerging markets, while interest margins are lower than those of some Eastern European countries. Non-interest income of the big banks forms approximately half of their total revenue, while operating costs are high, because of extensive branch networks and electronic infrastructures (KPMG, 2002 Banking Survey). The cost-to-income ratios of the four major retail banks, according to the Banking Council Report 2002, were Nedcor 50, Standard 57.5, ABSA 60, and FirstRand (FNB) 57.

Although profitable on the face of it, the SA banks are not profitable enough at SA levels of inflation, and thus will have to strive to increase profitability through market share growth and through growing existing clients. Customer service, in this competitive market, will be the key.

2.2.3 Recent Developments

The past year saw major upheavals in the banking sector, with a flight to quality by depositors forcing a major restructuring of the industry. The crises in the second tier of SA Banks saw Saambou (the seventh largest bank) put into curatorship, and BOE merging with Nedcor. FirstRand acquired the home loan and deposit book of Saambou, and the home loan book of NBS.

Regal Treasury Bank collapsed, and numerous smaller banks cancelled their banking licenses, including Corpcapital, Brait, PSG Investment Bank, ING, and AMB. ABSA took a R1.8 billion loss on their microloan business, Unifer and the banking industry was generally under pressure on interest margins.

The level of foreign bank participation reduced, either through downsizing or players leaving the market.

2.3 CHALLENGES FACING SOUTH AFRICAN BANKS

After the turbulent year in 2002, there is no time for complacency in the banking sector, with numerous challenges facing the banks. These include:

- Increased demand for better quality service and more sophisticated products, putting pressure on costs;
- profit performance;
- improving revenue growth;
- retaining existing clients;
- efforts to maintain best international practices;
- increasing number of new laws with which Banks need to comply;
- increased distintermediation intensifying competitive pressure to own the customer and to generate revenue from the client base;
- global economic downturn;
- building a customer base;.
- rapidly developing electronic and mobile banking having an effect on customer loyalty;
- racial make-up of the staff at all levels, and
- continued competition in the marketplace.

From the above, it is clear that competition is still fierce in banking, and will play a role in costs, profitability, client retention, and customer growth.

2.4 COMPETITIVE FORCES IN SA BANKING

According to the PricewaterhouseCoopers' 2003 SA Banking Survey, the retail market has increased in competitive intensity. Only one of six banks responding in the survey felt that it was moderately competitive. Three Banks had made significant or fundamental changes to strategy and posititioning. Table 2.1 below shows how the six banks rated the competition in the market-place.

TABLE 2.1

COMPETITION IN THE MARKET PLACE

RETAIL BANKING

Competition \ Response	No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning
Intensive		**33%**	**33%**	**17%**
Moderate		**17%**		
Light				
None				

Source : PWC 2003 SA Banking Survey

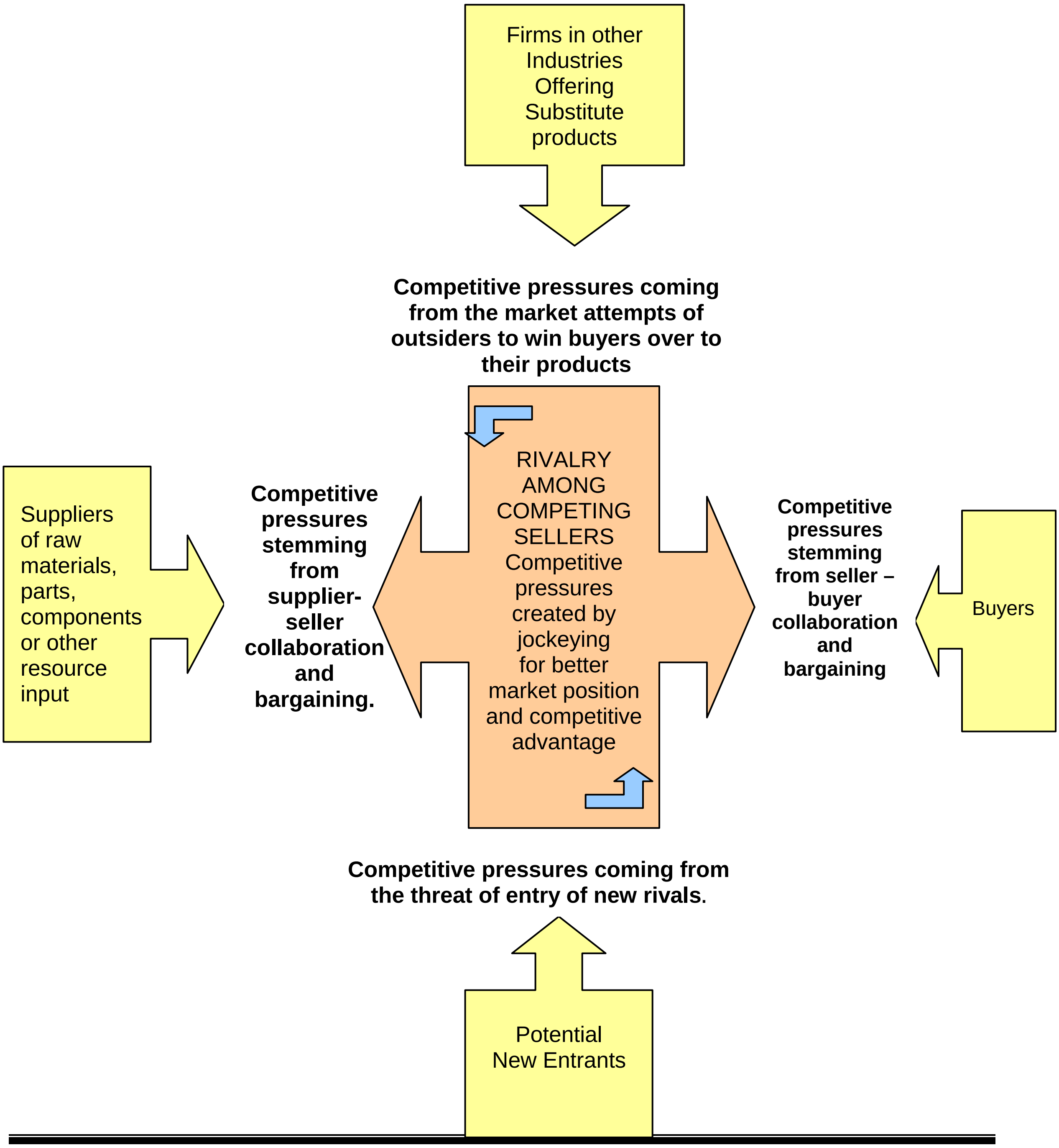
Based on responses from 6 banks.

2.4.1 The Five Forces Of Competition

To understand what the competition is like in the SA Banking Industry, and how strong each of the competitive forces is, it is possible to use Porter's industrial organization perspective to analyse competitive forces in this industry. The five-forces model developed by Michael Porter, represented in Figure 2.3 below. (Thompson and Strickland, 2001:81).

FIGURE 2.3

THE FIVE-FORCES MODEL OF COMPETITION: A KEY ANALYTICAL TOOL FOR DIAGNOSING THE COMPETITIVE ENVIRONMENT



2.4.1.1 Rivalry Among Competing Sellers

Rivalry among competing sellers is usually the strongest of the five competitive forces. Thompson and Strickland (2001:82) believe that the intensity of rivalry among competing sellers is a function of how vigorously they employ such tactics as lower prices, snazzier features, expanded customer services, longer warranties, special promotions, and new product introductions.

Furthermore Thompson and Strickland (2001:82-84) point out that the following factors influence the strength of rivalry among competing sellers.

- Rivalry intensifies as the number of competitors increase, and as competitors become more equal in size and capability.
- Rivalry is usually stronger when demand for the product is growing slowly.
- Rivalry is more intense when industry conditions tempt competitors to use price cuts or other competitive weapons to boost unit volume.
- Rivalry is stronger when customers' costs in switiching brands are low.
- Rivalry is stronger when one or more competitors are dissatisfied with their market position, and launch moves to bolster their standing at the expense of rivals.
- Rivalry increases in proportion to the size of the payoff from a successful strategic move.
- Rivalry tends to be more vigorous when it costs more to get out of a business than to stay in and compete.
- Rivalry becomes more volatile and unpredictable, the more diverse competitors are, in terms of their visions, strategic intents, objectives, strategies, resources, and countries of origin.
- Rivalry increases when strong companies outside the industry acquire weak firms in the industry, and launch aggressive, well-funded moves to transform their newly acquired competitors into major market contenders.

In banking in South Africa, rivalry between ABSA, Standard, FNB, and Nedcor is definitely the strongest of the five competitive forces.

2.4.1.2 The Potential Entry Of New Competitors

The seriousness of the threat depends on the barriers to entry and the expected reaction of incumbent firms to the new entry. Some of the barriers to entry include economies of scale, product differentiation, Government or Industry regulations, and capital requirements.

In South Africa, retailers like Pick 'n Pay and Woolworths fall into this category, and have increased the competition for the consumer's custom.

2.4.1.3 Competitive Pressures From Substitute Products

Firms in one industry are quite often in close competition with firms in another industry because their respective products are good substitutes.

Technology is probably one of the biggest substitute threats to banks, with cell- phones and computers facilitating electronic commerce. Ultimately, however, people will still need some cash, and substitute products will need to fall under the banking supervisor to protect depositors.

2.4.1.4 *Competitive Pressure From Suppliers*

Competitive pressure from suppliers is a strong competitive force when the suppliers have sufficient bargaining power to put certain rivals at a competitive disadvantage, based on the prices they can command, the quality and performance of the items they supply, or the reliability of their deliveries (Thompson and Strickland, 2001:89).

In SA banking, compressive pressure from suppliers is not seen as a major threat.

2.4.1.5 The Power Of Buyers

Buyers are in a strong competitive position when they influence the purchase, or purchase a large percentage of an industry's output.

In South Africa, customer bargaining power has become a greater threat, as customers are increasingly aware of their rights, are more demanding and better educated, and will move their banking relationship if their needs can be better satisfied elsewhere. As a result, there has been a greater shift to focus on customer service and customer care programmes to satisfy and retain customers.

In South Africa, banks have seen competition intensify, notwithstanding a shake-out of second-tier banks. Competition, especially amongst competing sellers, has increased, and banks continually strive to differentiate themselves from their competitors. Price, product, and distribution advantages are rapidly copied or nullified, and thus the only true differentiator seems to be customer service. Market forces thus dictate the need to focus on customer service. Chapter 3 will analyse this topic.

CHAPTER 3: CUSTOMER SERVICE

Quality in a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay for. A product is not quality because it is hard to make and costs a lot of money, as manufacturers typically believe. This is incompetence. Customers pay only for what is of use to them and gives them value. Nothing else constitutes quality.

Peter Drucker

3.1 INTRODUCTON

Following on from Chapter 2, which provided an overview of the SA banking arena and its competitive nature, and the understanding that customer service is ultimately the key differentiator, Chapter 3 focuses on customer service. Customer service, customer retention and growth are examined first, followed by an assessment of the service profit chain, to show the relevance of service to profitability. Customer needs and expectations are then evaluated, as well as the concept of service quality. FNB's recent service assessment is discussed, and linked to the relevance to this study.

3.2 CUSTOMER SERVICE, CUSTOMER RETENTION AND GROWTH

This section explains why it is important to be concerned with customer service, which is basically about retaining the firm's customer base, which in turn leads to growth and profitability.

Zemke and Woods, (1999:3) point out that "customer service is about a relationship with people who are an essential part of everything you do." Kotler and Armstrong (1993:11) believe that the marketing concept holds that achieving organizational goals depends on determining the needs and wants of target markets, and delivering the desired satisfactions more effectively and efficiently than competitors do.

According to Martin (2001:9), customer service is intangible and often elusive, but can still be seen, heard, and experienced, and quality customer service can only be understood from a customer's perspective. He adds that customers tend to rate the level of service provided in terms of two dimensions:

- the procedural dimension, which consists of the established systems and procedures to deliver products and/or service, and
- the personal dimension, which is how service providers (using their attitudes, behaviours, and verbal skills) interact with customers.

Goodman, (1999:17) believes that investing in great service and quality translates into higher sales and profitability. He believes that there is a link between problems and loyalty, and that if you solve the problem, you will retain the customer. Unfortunately, many customers never contact the company when they need assistance or have a problem. According to Goodman, (1999:18) research across all industries by TARP (Technical Assistance Research Programs) in the USA, 50% of all consumers and 25% of all business customers with problems never complain to anyone - they just move their business elsewhere. It is therefore important to offer a customer service, to retain customer loyalty and to solve the problem the second time around.

Scheuing, (1999:37) proposes that, for organizations to survive and prosper, creating competitive advantage through customer loyalty is the strategic imperative. "Customer churn" is expensive, as it is said to cost five times as much to gain a new customer than to hold on to an existing one. Delighting customers is both psychologically and financially rewarding in terms of growth. It is an investment in an organisation's future success.

According to Reichheld (1993:64), when a company consistently delivers superior value and wins customer loyalty, market share and revenues go up, and the cost of acquiring and serving customers goes down. Customer loyalty appears to be the only way to achieve sustainable superior profits.

3.3 THE SERVICE PROFIT CHAIN

In the above section it was stated that good service retains customers, and this loyalty is important for the growth of the business. This section covers the "service profit chain", which adds to the above, but starts with the relationship of employee satisfaction.

Parasuraman, Zeithaml and Berry (1985) suggest that service quality is made up of the quality level that is regularly delivered, and secondly, that there is a quality level where problems are dealt with. To deliver excellent service, both need to be handled well.

Heskett, Jones, Loveman, Sasser and Schlesinger (1994:166) developed a model called the Service Profit Chain (See Annexure B) which establishes relationships between profitability, loyalty, customer satisfaction, and employee satisfaction. The Service Profit Chain is made up of links that are as follows. Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Satisfied, loyal and productive employees create value. Employee satisfaction, in turn, results primarily from high quality support services, and policies that enable employees to deliver results to customers.

From the research by Heskett et al. (1994), it was concluded that there were strong links between customer loyalty and company growth and profitability, employee and customer satisfaction and employee satisfaction and capability. Thus for a bank like FNB, its objective must be to achieve loyal customers by satisfying their needs (See Annexure C), to have satisfied employees by ensuring that they are trained and empowered to achieve results for customers, and have a culture centred around service to customers and fellow employees.

In terms of empowerment, Bowen and Lawler (1995) have adopted the Heskett et al. Service Profit Chain, to include empowerment into this model (see Annexure D).

3.4 CUSTOMER NEEDS AND EXPECTATIONS

Customers can be either external (outside your organisation) or internal (people inside your organisation, who depend on you for service). A firm cannot provide quality service without fully understanding what the needs and expectations of its customers are. Martin (2001:43) believes that clients' basic needs are help, respect, comfort, empathy, satisfaction, support, and a friendly face. He groups these into four needs:

- the need to be understood;
- the need to feel welcome;
- the need to feel important, and
- the need for comfort.

Schoeman (1997:14-17) alternatively outlines the following expectations:

- excellent service – measured in terms of time and speed consistency;
- service quality;
- effectiveness – meeting standards, work done on time, etc.;
- the right price, and
- integrity – honest and trustworthy staff are essential.

Solomon et al. (1985:104) contend that satisfaction with a service encounter is seen as a function of the congruence between perceived behaviour and the behavior expected by role players. The critical element for improving routinised service transactions may be to give the customer what he/she expects, with no surprises.

According to Bitner (1990:69), customer satisfaction depends directly and most immediately on the management and monitoring of individual service encounters.

Satisfaction from the service encounter is defined within the "disconfirmation of expectations paradigm". Bitner (1990:70) believes the theory underlying the disconfirmation paradigm is that consumers reach satisfaction decisions by comparing product or service performance with prior expectations about how the product or service would or should perform. Each individual consumer is assumed to have expectations about how each individual service will perform. These expectations are compared with actual perceptions of performance as the product/service is consumed. If expectations exceed performance, dissatisfaction results. When expectations are met, or when performance actually exceeds expectations, satisfaction results.

Satisfaction is, however, different to perceived quality. Zifko-Baliga, (1999:97) contends that satisfaction is based on predictive expectations, while perceived quality is based on ideal expectations.

3.5 SERVICE QUALITY

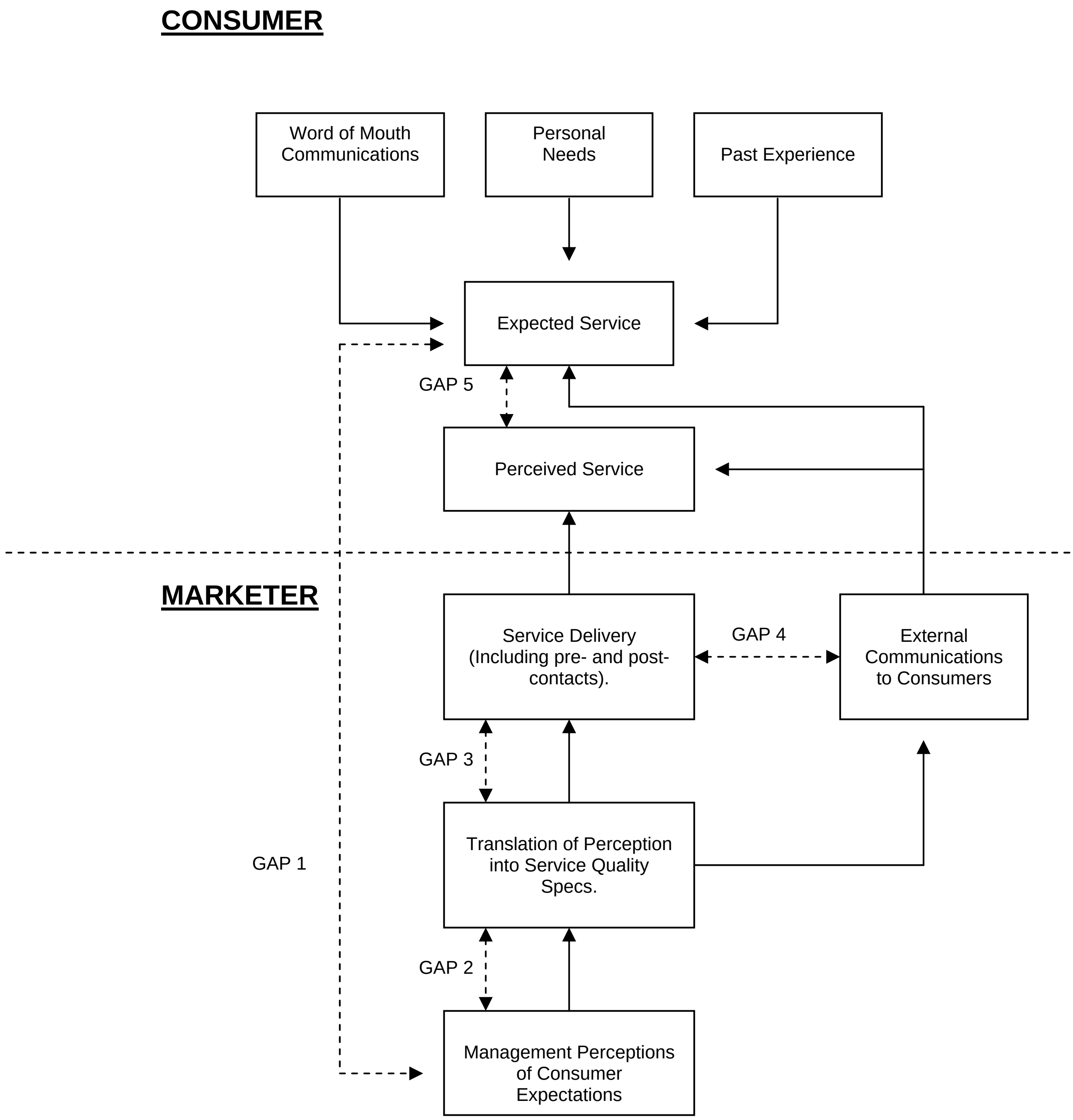
While product quality is relatively easy to define, service quality, according to Parasuraman et al. (1985:41), "is an elusive and indistinct construct." Because of the high degree of intangibility, it is frequently difficult for the customer to evaluate a service (Gronroos, 1988:10).

In 1985, Parasuraman, Zeithaml and Berry developed the Service Quality Model (Figure 3.1) summarizing the nature and determinants of service quality as perceived by consumers. Their research revealed ten dimensions that consumers use in forming expectations about, and perceptions of, service. This research also revealed four gaps on the service provider's side, that would likely affect service quality as perceived by consumers.

According to Parasurman et al. (1985:46), because the research was still exploratory at that stage, measurement of possible overlap across the ten criteria had to wait for future empirical investigation.

FIGURE 3.1

SERVICE QUALITY MODEL



Following this research, Parasuraman et al. did further research, and in 1988 developed SERVQUAL, a 22-item instrument for measuring consumer perceptions of service quality. In the service quality model, "gap 5" referred to the gap between expected service and perceived service from the consumer's side. The 22 items measure five dimensions of Service Quality, namely - tangibles, reliability, responsiveness, assurance, and empathy. These dimensions were originally ten, made up of 22 items. Table 3.1 shows the five dimensions, the initial ten service quality dimensions, and an explanation of each final dimension.

TABLE 3.1

SERVQUAL DIMENSIONS

FINAL SERVQUAL DIMENSONS	INITIAL SERVQUAL DIMENSONS	DIMENSON EXPLANATION
Tangibles	Tangibles	- Physical facilities, equipment and appearance of personnel
Reliability	Reliability	- Ability to perform the promised service dependably and accurately
Responsiveness	Responsiveness	- Willingness to help customers and provide prompt service
Assurance	Competence Courtesy Credibility	- Assurance : Knowledge and countesy of employees and their ability to inspire trust and confidence.
Empathy	Security Access Communication Understanding	- Empathy : Caring, individualized attention the firm provides to customers

The construct of "service quality" refers specifically to perceived quality about an entity's overall excellence or superiority, as measured by the consumer, and is further supported as being a form of attitude related to, but not the same as, satisfaction, and resulting from a comparison of expectations with perceptions of performance.

(Parasuraman et al., 1988:15).

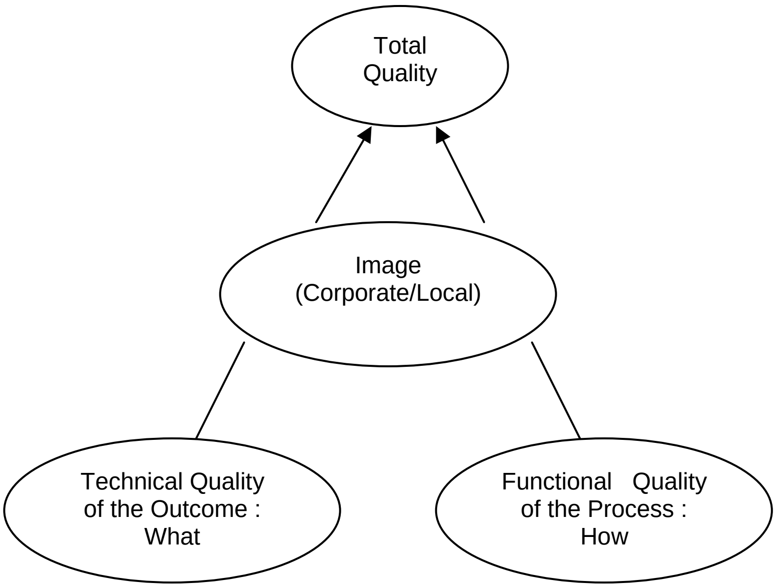
The sample for the SERVQUAL research included respondents from retail banking. While SERVQUAL has been used extensively to assess service quality, other studies have criticised the instrument. Blanchard and Galloway (1994:7) criticised the model, saying the elements were far too closely interlinked to form the basis of a rigorous analysis of the service situation. The findings from Blanchard and Galloway's result were that customers overwhelmingly consider the process elements of the service when evaluating quality.

Cronin and Taylor (1992) suggested that the current conceptualisation and operationalisation of service quality (SERVQUAL) was inadequate, and based on a flawed paradigm. They believed that service quality should be measured as an attitude.

Another well-known study of service quality was carried out by Grönroos in 1984, in which he developed the Two Service Quality Dimensions model. (See Figure 3.2 below). He based service quality on three propositions, firstly that a functional quality or how the service is performed, is just as important as technical quality (i.e. what the client receives) and secondly, that image is of great importance to firms, because a customer sees the firm during his buying interaction. The third proposition states that the overall perception of quality is a function of the customer's evaluation of the service, and the difference between this evaluation and his expectation of the service.

FIGURE 3.2

GRÖNROOS' TWO SERVICE QUALITY DIMENSIONS



Grönroos (1988:13) also identified six criteria of good perceived service quality.

These are:

- Professionalism and Skills;
- Attitudes and Behaviour;
- Accessibility and Flexibility;
- Reliability and Trustworthiness;
- Recovery, and
- Reputation and Credibility.

3.6 FNB's SERVICE ASSESSMENT

It is important, when assessing the quality of service delivery at FNB, to first recap the superior customer experience the bank is trying to create, and then to benchmark performance against it.

FNB’s vision for service, from their Service Plan, is:
to be the Bank of First Choice that consistently provides world-class service through a culture of commitment to customer service. We need team members who are passionate and committed about serving our customers to develop long-term relationships with our clients. Superior Customer Experience is the only level of service that makes a significant difference to our customers and that will differentiate FNB as World Leaders in our industry. (Service Plan:1).

FNB’s ultimate aim is to attract customers and to find innovative and creative ways of keeping them, in other words, building and developing a relationship in which the customers do not want to leave the bank. It is important to realise that customers want some form of personalised service which shows that the bank values their business.

FNB’s service must be unique in terms of convenience, reliability, responsiveness and helpful solutions.

The bank must recognize that customers play a very important role in the business, and that everyone in the business plays an important role in supporting and serving the customers.

FNB’s four Service Secrets are as follows:

I Convenience
“Everything that we offer and do for our customers is easy to understand and convenient to use.” (Service Plan:2)

II Reliability
“Doing the right thing right the first time, every time for your customer.” (Service Plan:2)

III Responsiveness
“Interacting and responding to our customers with a positive attitude, sense of urgency and respect.” (Service Plan:2)

IV Helpful Solutions

Understand your customer's real needs and provide them with the appropriate solution (Service Plan:2).

The above vision for service, and four Service Secrets, assist FNB in delivering superior customer experiences. This effort, however, can all come to nothing if FNB does not recover effectively when it has failed a customer.

The second last criterion, namely recovery, is important to this dissertation's research and states: "The customers realise that whenever something goes wrong or something unpredictable unexpectedly happens, the service provider will immediately and actively take corrective action" (process-related criteria).

The SAS INDEX 2003, which rated both the Telecom Industry and the Banking Industry, rated Vodacom at 81% as the top Telecon player, and FNB at 79% as the leading Bank for service. Their model assessed customer expectations, perceived product quality, perceived value, and overall customer satisfaction. FNB was the top performer in terms of customer satisfaction, had the highest score for most of the attributes, and also had the highest score for reliability on overall perceived quality.

FNB also commissions an external research firm to do half-yearly customer service research. The latest assessment was done in May 2003, and shows the national score for superior customer service rising from 71.1% to 84% (72.3% in 2002). (See Annexure E.)

Looking at the detailed scores for the last two assessments, (Annexure F), it is clear that, in all the moment-of-truth score categories, there was an increase. This shows that FNB is improving in customer service.

The question to answer, however, is: How good are they when customer service fails, and service recovery has to kick in?

3.7 SUMMARY

Customer Service is integrally related to the marketing concept, and thus it is important to understand the customers' wants and needs, and deliver quality customer service, so that their custom is retained.

By investing in service, higher sales, growth, and profitability will eventuate. Loyalty is a by-product of customer satisfaction, and Heskett et al. have shown that this service-profit relationship begins with employee satisfaction.

From the literature, it is evident that Parasuraman et al.'s SERVQUAL model still has the greatest application in customer service research, notwithstanding the many criticisms and challenges to their model. The attributes of tangibles, reliability, responsiveness, assurance, and empathy, are important in customer service, and can also be applied to service recovery.

FNB has recently received the top rating in customer service, but how effectively the bank responds when service failures occur, is not known.

Chapter 4 will expand on service recovery.

CHAPTER 4: SERVICE RECOVERY

Great service is not cancelled by one act or by one single error.

Benjamin Disraeli

(1804 – 1881)

Those who enter to buy, support me. Those who come to flatter, please me. Those who complain, teach me how I may please others so that more will come. Only those hurt me who are displeased but do not complain. They refuse me permission to correct my errors and thus improve my service.

Marshall Field

(1834-1906)

4.1 INTRODUCTION

In the literature review so far, the South African Banking Industry was assessed, as well as the competitive forces affecting the industry, and the conclusion was reached that customer service is ultimately the key differentiator. Chapter 3 then focused on customer service, the relationship between service and profit, customer needs, service quality, and FNB's service assessment. Service thus has as its focus the task of getting things right the first time.

However, in service delivery, things often do go wrong irrespective of your systems, people or processes. "Mistakes are a critical part of every service…….. errors are inevitable." (Hart, Heskett and Sasser, 1990:148). In recent times there has been an emphasis on "doing it very right the second time". (Zemke and Bell, 1990; Berry and Parasuraman, 1991). "While companies may not be able to prevent all problems, they can learn to recover from them. A good recovery can turn angry, frustrated customers into loyal ones (Hart, Heskett and Sasser, 1990:148). Bitner, Booms and Tetreault (1990) showed that service failure can create satisfied customers when response to the service failure is appropriate.

Thus the importance of establishing the level of client satisfaction with service recovery within FNB and developing a proper customer complaints handling (CCH) system is clear, as those firms who are successful in service recovery will have a competitive advantage which will assist in ensuring their survival. How the company responds to complaints is vital, as it may increase satisfaction, or, as Hart et al. (1990) discovered, if service recovery is ineffective, dissatisfaction may increase. According to Mitchell (1993:22), some of the advantages of effective complaint handling include increased branch loyalty, improved market intelligence, customer perception of quality, cross-selling opportunities, reduced negative word-of-mouth, and reduced likelihood of legal proceedings.

The present chapter is the culmination of the literature review, and focuses on what service recovery is, its importance, benefits, and costs, what constitutes service failure, and what customer expectations from service recovery are. The research reported in this dissertation assesses FNB's service recovery rating, and does this by focusing on the service recovery dimensions in the Recovsat instrument. Other research on dimensions is examined, as is other research on service recovery.

This chapter also includes sections on internal service recovery, complaint handling strategies, the Banking Adjudicator's research, and FNB's internal research.

4.2 DEFINITION

Zemke and Bell (1990) define "service recovery" as a process for returning aggrieved customers to a state of satisfaction with the organisation after a service or product has failed to live up to expectations.

Berry and Parasuraman (1991) say it is "doing it right the second time" while Grönroos (1990) says it is "the actions a service provider takes responding to a service failure."

Johnston (1994) states that "recovery, a term developed in the service literature, is concerned with managing an organisation's response to failures when they occur. There is recognition that it is not necessarily the failure itself that results in customer dissatisfaction, but the organisation's response, or lack of it, to the failure."

Johnston (1994) found that successful service recovery is a function of the interpersonal skills of the service worker and his/her ability to respond quickly and flexibly to the situation. He concludes that the dimension of empowerment is more important than procedure.

Hart et al. (1990) believe that while mistakes are inevitable, "dissatisfied customers are not," while Armistead, Clarke and Stanley (1995:5) define service recovery as "the specific actions taken to ensure that the customer receives a reasonable level of service after problems have occurred to disrupt normal service."

Thus there are different definitions of service recovery, but they all focus on recovering from situations where failures have occurred in encounters with customers. In other words, they all refer to dissatisfaction and the service firm's need to take action.

4.3 IMPORTANCE, BENEFITS AND COSTS

In the literature, there is plenty of evidence that service recovery is an effective strategic tool for any business. Berry, Parasuraman and Zeithaml, (1988) discuss the long-term benefits of service recovery, while Hart et al. (1990) discuss in their article, *The Profitable Art of Service Recovery*, (which appeared in the Harvard Business Review in July/August 1990), how the best companies turn complaining customers into loyal ones. Companies that embrace customer satisfaction as a primary goal of their business, will focus on the value of pleasing a customer, namely satisfaction, loyalty, repeat purchases, and thus greater profitability. Hart et al. (1990) further state "recovery is fundamental to service excellence and should therefore be regarded as an integral part of a service company's strategy," and furthermore "in service business, the old adage must be revised : To err is human; to recover, divine."

Service recovery is thus important in keeping customers, creating satisfied customers, and developing long-term profitable business.

According to Berry and Parasuraman (1991:18), reliability is the most important dimension of service quality, and this has many benefits for the organisation. The same could be said of service recovery. If you recover quickly and reliably, the organisation should benefit from higher retention, increased positive word-of-mouth communication, greater opportunity to charge premium pricing, improved marketing effectiveness, and higher sales.

Research has shown that customers who have had a problem and then experienced effective service recovery are as likely to remain loyal customers of the company as those customers who did not experience any problems at all (Hart et al., 1990; Zemke and Bell, 1990). Service Recovery can also have positive benefits in terms of positive word-of-mouth advertising. Clutterbuck, Clark and Armistead (1993:133) say that the average customer who has experienced a good service recovery will tell three people of their experience.

Alternatively, the cost of not carrying out effective service recovery can be high, as in many instances, the organisation loses its customer. Defections can significantly reduce the profitability of a company. Reichheld and Sasser (1990:105) contend that, as the customers relationship with an organisation lengthens, so do profits increase. Organisations can increase profits by 100% by retaining 5% more of their customers. Thus continuous improvement in service quality is an investment, rather than a cost, as the customer generates more profit over time. Studies by the American consultants Bain and Company (in Clutterbuck et al, 1993:133) into the relationship between service, customer satisfaction and profitability, have shown a direct and positive link between high customer retention rates and increased profitability.

The reasons for this are the following.

- When you lose a customer you also lose all future potential earnings
- Long-standing customers are generally more profitable than new ones, because the cost of acquisition is high.
- Customers who stay are willing to spend more.
- Regular customers cost less to serve.
- Regular customers are more likely to refer new customers to their suppliers.

4.4 WHAT CONSTITUTES SERVICE FAILURE

In banking, like in most service industries, the goal of delivering zero defects when it comes to service is more difficult to achieve than, say, in a manufacturing environment. There are three reasons for this. Firstly, services are inseparable (production and consumption takes place at the same time). Thus there is no time to check quality and correct mistakes. Secondly, owing to the intangible nature of services, there is a great deal of subjectivity in their evaluation. Thirdly, services are heterogeneous, thus no two service encounters are exactly the same, so they are difficult to replicate or standardise.

It is inevitable that service failure will occur, hence the need for service recovery. Berry and Parasuraman (1992) point out that companies should see failure not necessarily as a problem, but rather as an opportunity to create satisfied customers.

From a customer's viewpoint, a failure is any situation where something has gone wrong. This may relate to the product, the service, or the customer's well-being. Research by Johnston (1994) suggests that organisations need to respond to failures for which they are responsible, as well as to those failures where they are not necessarily being held responsible. In these latter cases, there are opportunities to generate high levels of satisfaction.

Colgate and Norris (2001:215-233) did research in developing a comprehensive picture of service failure and developed a model of the potential outcomes from service failure. Their research was in the business banking arena, and they concluded that loyalty and barriers to exit were additional factors in determining whether a client would stay or leave an organisation after a service failure.

According to Lewis and Spyrakopoulos (2001:38), service failure is typically determined by elements such as the nature of the service encounter, the cause of the problem, and the psychographics of the individuals involved.

Bitner et al. (1990:80), however, say "it is not the initial failure to deliver the core service alone that causes dissatisfaction but rather the employee's response to the failure."

Whichever way you look at service failure, in the end, if you have not satisfied a customer, and unless you recover effectively, there is a risk that the customer will move elsewhere.

4.5 CUSTOMER EXPECTATIONS IN SERVICE RECOVERY

Customer dissatisfaction means the negative feelings brought about when their expectations exceeded the service organisation's performance. When service failures occur, customers have various choices, one of which is to complain. Complaint handling is the opportunity a company has to rectify the problem and exceed expectations. This is, in essence, what service recovery is about.

In assessing customer expectations in service recovery, we first need to examine what is important in service delivery. Parasuraman et al. (1988:23), in their revised determinants of service quality (in SERVQUAL), suggested that tangibles, reliability, responsiveness, assurance, and empathy, captured the dimensions necessary for assessing customer perceptions of service quality. According to Cina (1990:40), there are five steps leading to service excellence. These are: 1) Know your moments of truth, 2) Inventory your moments of truth, 3) Assess Importance/Performance of each contact, 4) Establish a service management discipline, and 5) Implement your action plan. Zemke and Bell (1992:60) point out that, when things do go wrong and you are unable to achieve service excellence, then customers expect the firm to recover effectively. This implies the following.

- To apologise for the fact that the customer is inconvenienced, offer a "fair fix" for the problem.
- Treat the customer in a way that suggests the company cares about the problem, about fixing the problem, and about the customer's inconvenience.
- Offer some value-added atonement for the inconvenience.
- Keep your promises.

"The true test of a company's commitment to service quality isn't in the pledge it makes in its literature; it's in the way the company responds when things go wrong for the customer". (Zemke 1994:17).

4.6 SERVICE RECOVERY DIMENSIONS

In the present research, the Recovsat instrument developed by Boshoff (1999) will be used to assess service recovery in FNB. The service recovery dimensions captured by the instrument will be evaluated and their relationship to customer satisfaction assessed, as well as the relationship between satisfaction and loyalty.

It is important to first explain the attributes as measured by the Recovsat instrument (Boshoff 1999:238-240).

Communication	-	refers to the manner in which service employees address the customer lodging a complaint.
Empowerment	-	is the authority to act, and refers to the resources to which employees have access, and the decisions they are permitted to make.
Feedback	-	refers to the situation in which, once the problem is solved, the service firm provides information about the problem, and what is being done to resolve it.

Atonement	-	relates to some value-added compensation to restore the ratio of inputs to outputs, by making it up to the customer for the inconvenience caused by the service failure.
Explanation	-	refers to whether the service provider explains to the customer, in a clear and concise manner, why the problem occurred.
Tangibles	-	refers to the appearance/standard of the dress of the employees, the equipment they use, and the physical environment in which they handle complaints.

This research thus follows on from Boshoff's two studies in New Zealand, which ascertained what customer expectations were when service failure occurred, and broke new ground in measuring actual service recovery performance against those expectations, from the perspective of customers who had actually complained.

In a study of other attributes of service recovery, Leong (1996) found that the attribution of blame had the most important impact, followed by empowerment, and thirdly by apology. Allan's research (1996) into the influence of managerial attitudes, employees' working conditions, and employee job attitudes, on service recovery, established that empowerment of frontline employees and effective organisational commitment were the two most important variables influencing the service recovery of frontline employees.

Lewis and Spryrakopoulos (2001) researched service failures and recovery in retail banking from the customer's perspective, and assessed recovery in terms of correction, explanation, apologies, redirection, compensation and doing nothing. They concluded that customers wanted to get what they were supposed to get in the first place. Organisations needed to make things right and eliminate the cause of dissatisfaction with the initial service. In terms of further research, they proposed that in the financial services sector, research efforts might relate to the investigation of the impact of service recovery on customer loyalty, which this research now does. Bejou and Palmer (1998) carried out some research on service failure and loyalty, in the airline industry. They found that there was a process from open-mindedness about service failure, to lower tolerance, and gradually a closer relationship, which was more resistant to service failure.

Mattila (2001) investigated the effectiveness of service recovery in a multi-industry setting. Two situational factors, the service type and the magnitude of failure were assessed. In the hair-styling industry, effective service recovery (e.g. apology combined with a tangible compensation) had a strong positive effect on recovery satisfaction and loyalty, but the impact was lower for restaurants and dry-cleaning services.

Swanson and Kelley (2001) did research on the impact of service recovery attributions in determining consumers' intentions of engaging in post-recovery word-of-mouth behaviour. They concluded that clients who had experienced positive service recovery, shared positive information to others about their experiences.

There is not a great deal of evidence where researchers have analysed actual complaints from a meaningful sample in the financial services arena, and assessed the organisation's service recovery performance, and then further ranked attributes and their relationship to satisfaction and the latter's relationship to loyalty. This study will assist in addressing this gap in the services marketing literature.

4.7 INTERNAL SERVICE RECOVERY

It is vital that staff who interact directly with customers are given the authority, responsibility, and incentives, to recognise, care about and attend to customer needs.

Another aspect that is critical to effective external service recovery is the concept of

internal service recovery. This concept, developed by Bowen and Johnston (1999:119) refers to what the organisation does to make "internal customers", namely front-line employees, feel "whole" after external recovery episodes. Employees may develop negative feelings from not being in a position to correct service failure, because others have the responsibility, but nevertheless the front-liners are the target of the customer's dissatisfaction and even anger.

These internal customers need to be supported by management so that they are able to serve the external customers satisfactorily.

The following actions should be adopted to improve internal service recovery:

- create internal awareness of the existence of internal customers;
- identify and communicate expectations to internal suppliers to address capabilities and obstacles, and
- obtain a measure for internal customer satisfaction, and give feedback to internal suppliers, if services are to be improved.

4.8 COMPLAINT-HANDLING STRATEGIES

To recover effectively implies that a firm must have a proper complaint-handling system in place.

According to Davidow (2003:225), the guidelines necessary for an effective service recovery response can be grouped under six headings. These are timeliness (speed), facilitation (policies, procedures and structure), redress (atonement), apology, credibility (willingness to explain), and attentiveness (interpersonal communication).

Clutterbuck, Clark and Armistead (1993:131) suggest some guidelines for a complaints-handling checklist (See Appendix G) which include empowering staff, responding to complaints within 24 hours in a personal manner, recording all complaints, training staff, and appointing a director responsible for complaints-handling.

Furthermore, Boshoff (1999:236) in developing his Recovsat instrument to measure satisfaction with transaction-specific service recovery, proposed six dimensions to guide service recovery, namely communication, empowerment, feedback, atonement, explanation and tangibles.

Following from the above, it seems that the following standards and guidelines should be in place to guide service recovery procedures and meet customer expectations.

- Record all complaints.
- Listen. Don't interrupt. Wait for the customer to get it all out before you go into solving the problem.
- Act fast. Customers want to see immediate action to fix the mistake. Try to respond to complaints within 24 hours in a personal manner.
- Accept responsibility. The customer is always right.
- Ask questions. Understand exactly what the problem is.
- Acknowledge the customer's feelings.
- Be reliable and honest in your attempts to solve the problem.
- Front-line employees must be empowered and trained to handle customer complaints.
- Provide feedback to the client within an acceptable period, in writing.
- Apologise – preferably in writing.
- Develop an action plan. Give the customer a specific day and time by which he/she can expect action. Keep the customer appraised of the progress.
- Resolve the complaint the first time.
- Offer some value-added atonement for the loss and inconvenience.
- Explain timeously why the problem occurred.
- Thank the customer for bringing the problem to your attention.
- Dress professionally, and ensure that your workplace is tidy.
- Follow-up. Personally follow through to make sure the problem is solved adequately.
- Introduce service-level agreements between business units relating to the handling of complaints (including turn-around times, service levels, and penalties for lack of service).

- Develop a communication strategy that makes customers aware of how and who to complain to.

4.9 BANKING ADJUDICATOR'S RESEARCH

As effective service recovery is important for successful relationship marketing, (which is vital in retail banking), it is important to assess how well FNB meets its clients' expectations when they complain.

In assessing research done to date, it is noted that the office of the Banking Adjudicator in 2002 carried out a telephonic survey through Markinor of the four major banks, to assess banks' levels of service to clients who lodged certain complaints regarding their bank. Markinor randomly phoned clients from contact lists provided by the banks, and asked those who had reported a complaint in the previous year certain questions about the banks' complaint handling. Errors, lack of communication, pricing, and attitude of staff were the major reasons for complaints. (See Annexure H.) Overall, all four banks were rated low, with FNB coming last in the complaint-handling process.

The problem here, for FNB, is that poor service recovery impacts on customer satisfaction, and subsequently on loyalty. This, according to the service-profit chain, then has an impact on the profitability of FNB.

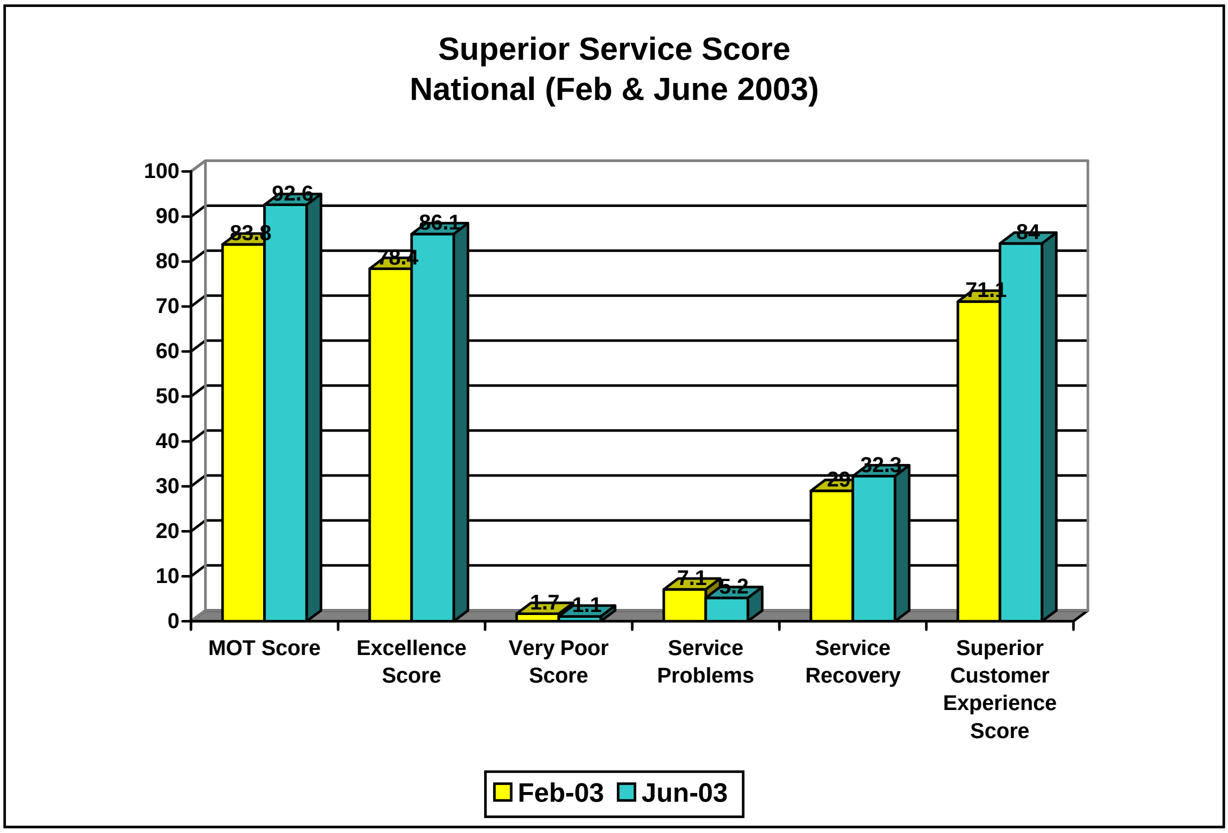
4.10 FNB's INTERNAL RESEARCH

Another customer service survey conducted by Consulta Consulting Company for FNB in June 2003 and called the *Moment of Truth CSI* (van Niekerk, 2003) showed that 94.8% of clients did not encounter any service problems. However, of the 5.2% who did experience problems, only 32.3% were resolved. Appendix I shows this worrying statistic in respect of service recovery, and highlights the need to implement a proper customer-complaint handling system to improve the quality of service delivery at FNB.

June 2003, however, did represent an improvement from February 2003, where 7.1% of customers experienced a problem, and only 29% of these complaints were resolved.

Figure 4.1 below shows a comparison of scores from February to June 2003 in respect of *overall score, excellent score, very poor score, service problems, service recovery and superior customer experience score.*

FIGURE 4.1



4.11 SUMMARY

This chapter concludes the literature review with an overview of service recovery, which in turn, is part of customer service, which in itself is the differentiator in banking.

Service recovery is seen as doing it right the second time. The concept was defined, analysed in terms of its importance, benefits and costs, and assessed in terms of service failure and customer expectations.

The dimensions which are important in terms of this research were explained, as was the need for this research in terms of getting a service recovery score for FNB. Other research was discussed, as was internal service recovery, complaint-handling strategies, the Banking Adjudicator's research and FNB's internal assessments.

SECTION 3: THE EMPIRICAL STUDY

CHAPTER 5: RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter outlines the research methodology for the current study into client satisfaction with service recovery performance. The setting is the South African banking arena. This section is divided into six parts. Following the introduction, the second part will discuss the research objectives and the corresponding hypotheses. The third part explains the sample selection, while part four focuses on the questionnaire design and covering letter. Part five covers the data collection process, while the final part discusses the statistical techniques utilised in this study, including factor analysis, multiple regression analysis, and correlation analysis.

The research is taken from a post-positivist paradigm in respect of ontology, while in terms of epistemology, a modified duelist approach will be adopted, separating the researched sample from the researcher's using of a structured questionnaire.

The research method is a quantitative approach, using the questionnaire data-gathering tool.

5.2 THE RESEARCH OBJECTIVES

The overall objective of the study is to measure client satisfaction with service recovery within FNB. This is achieved by examining various service recovery dimension results, and their relationship to client satisfaction.

Flowing from this background, the following research objectives were formulated.

1) What is the relationship between each of the six independent variables and satisfaction?

2) What is the relationship between satisfaction and loyalty?

Furthermore, to establish the Recovsat score for FNB, it is necessary to determine the mean for each independent variable, and an overall mean. This will determine on which dimension FNB is presently effective, and where improvement may be required.

A secondary research objective is to subject the Recovsat instrument to psychometric assessment, in order that its reliability and construct validity can be evaluated.

5.2.1 Research Hypotheses

Following from the research objectives, the hypotheses below were developed to examine the relationships between each of the independent variables (the dimensions of SR captured by the Recovsat instrument) and overall satisfaction, and also between satisfaction and loyalty.

These hypotheses are as follows:

H_1 Improved communication in service recovery will exert a positive influence on customer satisfaction.

H_2 Empowerment of employees will exert a positive influence on customer satisfaction in service recovery.

H_3 Feedback in writing exerts a positive influence on customer satisfaction in service recovery.

H_4 Atonement in service recovery will exert a positive influence on customer satisfaction.

H_5 Explanation of why the problem occurred will exert a positive influence on customer satisfaction.

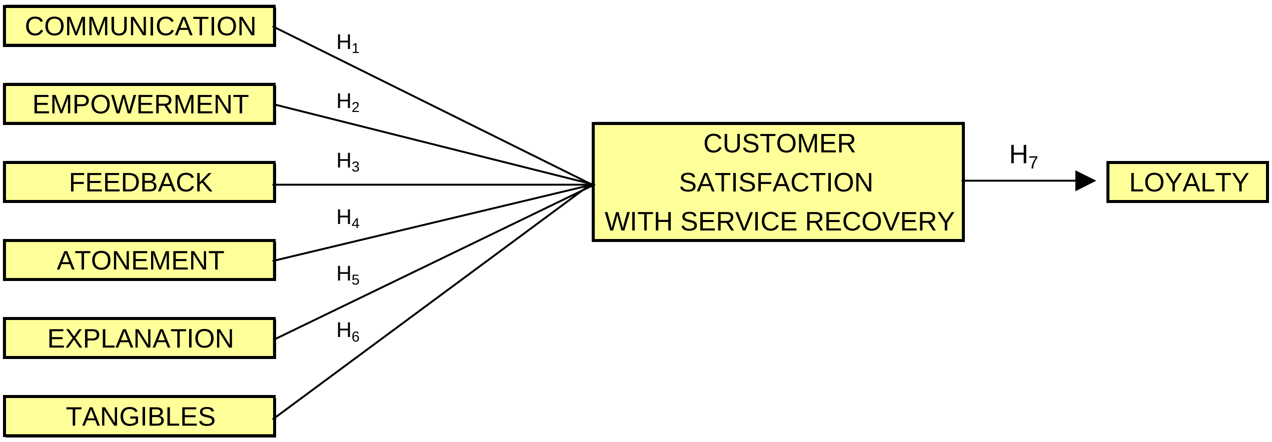
H_6 Positive perceptions of tangibles in service recovery exert a positive influence on customer satisfaction.

H_7 Customer satisfaction will exert a positive influence on loyalty.

A graphical representation of the 7 hypotheses is presented below, in Figure 5.1

FIGURE 5.1

MODEL OF DETERMINANTS OF CUSTOMER SATISFACTION WITH RECOVERY



5.3 THE SAMPLE

5.3.1 Industry Selection

It was decided to use the Banking Industry as the sample industry, as banking is very competitive both internationally and in South Africa, and is an environment that has plenty of customer contact. There are also many clients who have had long relationships with their banks, and thus satisfaction and loyalty can be examined.

5.3.2 Sample Selection

From examination of the literature from previous research, there did not seem to be many studies that had used a comprehensive sample of clients who had actually complained to their bank. Leong (1996:114) for example, used students and thus his study could be seen more in the light of a laboratory experiment. Even the Banking Adjudicator's research, (Markinor, 2002:2) randomly contacted clients from general client lists obtained from the banks, and then asked if they had a complaint in the preceding year.

In this present study, all FNB's clients who had complained about a service problem over the six-month period 1 October 2002 to 31 March 2003, represented the population. The sample was categorised into two parts. The first was 100% of those who complained via the Managing Directors offices' careline, and who numbered 239 individuals. The second was selected on a non-probability sampling basis, using the accidental or convenience method. Clients nationally in metropolitan areas were asked to complete the Recovsat questionnaire if they had complained via a bank branch about a service breakdown. A sample size of 700 people was chosen. To ensure proper representation of FNB, and to enhance the validity of the study, a relatively large sample was selected, to ensure adequate national coverage.

The sample make-up was as follow.;

- ***Gender***

  Males 422

  Females 261

- ***Age***

  0-21 2

  22-29 - 67

  30-39 - 160

  40-49 - 150

  50-59 - 115

  60 Plus - 157

5.4 QUESTIONNAIRE DESIGN

For this study the Recovsat, (an instrument used to measure satisfaction with transaction-specific service recovery) which was developed by Boshoff in 1999, was adopted. The instrument was chosen as it was designed specifically to measure satisfaction with service recovery. In its development, 83 items were generated, to measure the 15 attributes of service recovery. Through scale purification, and validity and reliability testing, the dimensions were reduced to six, measured by 17 items. These dimensions were communication, empowerment, atonement, tangibles, explanation, and feedback.

Boshoff (1999:247) believed that the Recovsat could calculate satisfaction scores for overall service recovery performance and for each dimension. It could also permit an investigation of the organisational antecedents of satisfactory service recovery.

Three questions were added to the instrument, one under Feedback (Feed 3), one under Explanation (Explain 3), and one under Tangibles (Tang 3). Under the validation process, these were later rejected.

The Recovsat questionnaire items were measured by a 5-point Likert scale, with responses ranging from *strongly disagree* (value 1) *to strongly agree* (value 5). According to Welman and Kruger (2002:150), this is the most popular type of scale in the social sciences. The questions are closed in nature, with the selected response to be ringed by the respondent.

A second part was added to the questionnaires, called the Information Sheet (See Annexure J for a copy of the questionnaire). The objective of this section was to present FNB with more detailed information about the respondents, so that a more accurate profile could be established about complaints of poor service. The details included the following:

- which Zone (Region) the respondent was from;
- which catchment area (these areas made up the 4 zones);
- which outlet or branch;
- nature of the complaint;
- how long the respondent had been a client of the bank;

- the respondent’s age, and
- their gender.

5.5 DATA COLLECTION

Owing to the nature of the survey and the objective of trying to obtain over 700 respondents, the researcher forwarded a covering letter (See Annexure K) to the Sales and Service Directors of the 34 catchments nationally. In this letter, they were requested to complete a predetermined number of questionnaires (decided in terms of the catchment size). The number requested was approximately double what was hoped to be achieved (i.e. 1310 versus a target of 700).

The process followed is given below;

- Distribute questionnaires to Sales and Service Managers in branches.
- Check complaints register for customers who have complained.
- Contact them telephonically to complete questionnaire.
- Once completed, return to researcher by either Fax or return post.

In terms of the Head Office sample of 239, the researcher obtained a printout of all these clients, and together with some assistants, telephonically contacted all who could be reached. The questions were then put to them as per the questionnaire.

According to Welman and Kruger (2002:160), the advantages of telephonic interviews are 1) cost and ease of application and 2) anonymity for respondents, and hence greater honesty, while a disadvantage may be reduced control over the interview situation.

From an ethical perspective, nobody was forced to participate, and all questionnaires were treated with confidentiality, as the clients’ names were not recorded.

As the completed questionnaires were received, they were input onto an Excel database in anticipation of the analysis phase.

5.6 STATISTICAL TECHNIQUES UTILISED

In the study, five statistical techniques were utilised to analyse the data. These were Cronbach's alpha for reliability, factor analysis to assess discriminant validity, descriptive analysis for summarisation of the data obtained, multiple regression analysis to assess the relationship between the independent and dependent variable, and Pearson correlation analysis to assess the relationship between satisfaction and loyalty.

5.6.1 Cronbach's Alpha

Cronbach's Alpha coefficient is a commonly-used measure of reliability for sets of construct indicators (Peterson, 1994:381). In this empirical study, Cronbach's alpha was used to determine the internal reliability of the instrument used to measure each factor. A Cronbach's alpha will be calculated for communication, empowerment, feedback, atonement, explanation, tangibles, and the Recovsat instrument overall, using the computer programme SAS.

5.6.2 Factor Analysis

According to Parasuraman (1991:757), factor analysis has two basic functions:

- To simplify a set of data by reducing the number of variables, and
- To identify the underlying structure or dimensionality of the data.

In this study, factor analysis was used to assess the discriminant validity of the variables used, and to reflect each construct. The analysis identified which variables represented each construct, and those that cross-loaded or did not load to a significant extent were deleted.

Validity, according to Leedy (1997:98), of a measurement instrument, is the extent to which the instrument measures what it is supposed to measure.

In this research, validity was assessed by conducting exploratory factor analysis using the BMDP4M statistical programme.

5.6.3 Descriptive Analysis

Statistics which describe what the data looks like – where their centre or midpoint (mean) is, how broadly they are spread (standard deviation), etc., are called descriptive analysis (Leedy, 1997:259). From these figures, a Table can be constructed, or they can be shown graphically by way of bar charts or pie charts.

In this study, bar charts are used to show the ratings for each of the dimensions, as well as satisfaction and loyalty.

5.6.4 Multiple Regression Analysis

According to Hair, Anderson, Tatham and Black (1995:85), multiple regression analysis is a statistical technique that can be used to analyse the relationship between a single dependent (criterion) variable and several independent (predictor) variables. The objective of multiple regression analysis is to use the independent variable, whose values are known, to predict the single dependent variable selected by the researcher.

In this study, multiple regression analysis will be used to investigate the relationship between the six independent variables (the dimensions of SR) and satisfaction, and to establish if there are positive relationships (i.e. where $p < 0.001$ at the 1% level or where $p < 0.05$ at the 5% level).

5.6.5 Pearson's Correlation Analysis

The fifth statistical technique used in this analysis is Pearson's Correlation Analysis. This technique was used to assess the relationship between satisfaction and loyalty.

Pearson's correlation analysis is used when there is one independent and one dependent variable, and the researcher wishes to assess whether there is a linear relationship between the two variables.

SECTION 4: RESULTS AND DISCUSSION

CHAPTER 6: ANALYSIS AND INTERPRETATION OF THE EMPIRICAL STUDY

6.1 INTRODUCTION

This chapter presents the empirical results of the research. It firstly considers the study's response rate.

The validity and reliability of the instrument used to measure the variables are then assessed. This is followed by an analysis of the six independent variables, and the results of satisfaction and loyalty. The relationship between independent variables and satisfaction is evaluated, using multiple regression analysis, while correlation analysis is used to assess the relationship between satisfaction and loyalty. A Recovsat score for FNB is also calculated.

The results of the empirical study are presented and discussed against the background of the literature review presented in Chapters 2, 3 and 4.

6.2 RESPONSE RATE

The data collection took place over a six-month period from 1st October 2002 to 31st March 2003. The sample drawn was divided into two sub-samples. The first sub-sample consisted of the 239 customers who lodged complaints with the bank's Head Office over the six-month period, while the second sample was complaints lodged with branches in the metropolitan areas across South Africa. The objective was to collect 700 questionnaires from the second sample, and as many as possible from the first.

The response rate from the Head Office sample was 102 questionnaires, or 43%, while 600 responses or 86% (of objective) were received from branches.

In terms of distribution, the following Table reflects from where the questionnaires came.

TABLE 6.1

ZONE DISTRIBUTION

	Inland North	**Inland South**	**Cape**	**East Coast**	**Inland West**	**TOTAL**
Complaints via branches	96	62	279	163	-	600
Complaints via Head Office	37	28	20	13	4	102
TOTAL	**133**	**90**	**299**	**176**	**4**	**702**

6.3 VALIDITY

6.3.1 Discriminant Validity

According to Maloney and Ward (1982:66), validity concerns what the test measures, and how well it does so. According to Welman and Kruger (2002:135), validity can be "construct validity" or "criterion-related" validity. Construct validity of an instrument is not only supported by high relationships with other measures of the same construct (called "convergent validity"), but also low correlations with measures of different constructs (called "discriminant validity").

The the first data analysis step was to assess whether the data did indeed contain six "different' dimensions, as suggested by the Recovsat scale, and did not correlate with theoretically unrelated constructs.

For this purpose, a Maximum Likelihood Exploratory Factor Analysis, specifying a Direct Quartimin oblique rotation of the original factor matrix using the BMDP4M statistical programme (Frane, Jennrich and Sampson, 1990) was used to assess the discriminant validity of the instrument. The questionnaire originally had 20 items related to the independent variables (17 original Recovery Questionnaires and three additional ones), but was reduced to 16 items. Feedback 3, Explanation 3, Tangibles 3 (the added questions) and Atonement 3, were rejected as their scores did not load onto a separate factor. These four items were therefore removed from all subsequent analyses.

The Exploratory Factor Analysis thus provides considerable evidence of the discriminant validity of the Recovsat instrument. All factors in the six-factor solution had Eigen values above 1.00 or close to 1.00. Also, the six factors explained 69.4% of the variance in the data space.

Table 6.2 provides sufficient evidence of discriminant validity, and thus it can be accepted that the instrument is valid.

TABLE 6.2

THE ROTATED FACTOR LOADINGS

	FACTOR 1 Communication	FACTOR 2 Explanation	FACTOR 3 Tangibles	FACTOR 4 Empowerment	FACTOR 5 Atonement	FACTOR 6 Feedback
COMM1	**0.795**	0.012	-0.059	0.027	-0.043	0.097
COMM2	**0.784**	-0.021	0.028	0.042	-0.003	0.042
COMM3	**0.876**	0.002	0.043	0.004	0.045	-0.110
COMM4	**0.855**	0.047	-0.036	0.027	-0.007	0.008
COMM5	**0.876**	-0.006	0.045	-0.072	0.061	0.016
EXPLAIN1	-0.023	**0.871**	0.001	-0.011	0.018	0.060
EXPLAIN2	0.0001	**0.986**	0.003	0.009	-0.003	-0.037
TANG1	0.016	0.019	**0.883**	0.007	-0.025	0.013
TANG2	-0.028	-0.018	**0.927**	-0.004	0.023	0.004
EMP1	0.231	0.125	0.066	**0.495**	0.024	0.017
EMP2	-0.078	-0.059	-0.019	**0.912**	-0.011	0.016
EMP3	0.038	0.045	0.010	**0.753**	0.018	-0.012
ATONE1	-0.013	0.034	0.014	0.001	**0.915**	-0.012
ATONE2	0.027	-0.020	-0.012	0.005	**0.771**	0.033
FEED1	0.049	0.024	0.041	-0.003	-0.029	**0.452**
FEED2	-0.039	0.002	-0.026	0.012	0.071	**0.619**
Variance **explained**	3.580	1.757	1.657	1.653	1.447	0.618
Eigen value	6.330	1.840	1.630	1.480	1.130	**0.910**

6.3.2 Criterion-related or Predictive Validity

"Predictive validity" refers to the extent to which a measure of an individual's future level on some variable can be predicted by his performance on a current measurement of the same or a different variable (Tull & Hawkins 1993: 318). In other words, as the literature contends that satisfactory service recovery (the current measurement) will lead to beneficial outcomes such as Overall satisfaction and Loyalty (the future level), it was proposed that Recovsat scores would be positively related to these two variables, (Overall Satisfaction and Loyalty), as suggested by Hypotheses 1-7. To empirically test Hypothesis 7 (i.e. customer satisfaction will exert a positive influence on loyalty) a correlation analysis was done, using the computer programme SAS PROC CORR (SAS Institute 1988).

Table 6.3 (correlation analysis) shows that the Recovsat scores were strongly positively correlated ($P < 0.001$) with both Overall satisfaction and Loyalty as predicted by the literature, and customer satisfaction was positively correlated with loyalty. As a result, Hypothesis 7 can be accepted.

TABLE 6.3

CORRELATION ANALYSIS

3 Variables : Satis Loyal Recovsat
Simple Statistics

Variable	N	Mean	Std Dev	Sum	Min	Max
Satis	702	7.343*	2.32	5155.0	2.0	10.0
Loyal	702	7.650*	1.89	5371.0	2.0	10.0
Recovsat	702	54.440**	11.19	38223	16.0	80.0

Pearson Correlation Coefficients

	Satis	Loyal	Recovsat
Satis	1.000 0.000		
Loyal	0.486 0.0001	1.000 0.000	
Recovsat	0.718 0.0001	0.456 0.0001	1.000 0.000

* Out of 10 (5 Point Likert Scale x 2 variables)

** Score per person. To get score out of 5 divide by items i.e. 16 = 3.40 x $\frac{100}{5}$ for % i.e. 68.1%.

Thus the Recovsat percentage for FNB is 68.1%

As there is no benchmark with which to compare this score, it is difficult to assess how good 68.1% is in the industry. However, from a quality recovery viewpoint, the researcher believes this score should be over 80% (i.e. at the agree level of 4 or higher), and thus FNB has opportunities to improve its service recovery.

6.4 RELIABILITY

“Reliability” refers to the extent to which the obtained scores may be generalised to different measuring occasions, measurement/test forms and measurement/test administrators (Welman and Kruger 2002:139). Reliability also refers to the extent that results yield consistent, reproducible results. Reliability can be assessed in different ways.

In this study, the internal consistency of Recovsat was assessed using Cronbach's alpha. Cronbach's alpha ranges from zero to 1, and 0.7 is generally regarded as the cut-off point to be able to claim that an instrument is reliable.

To assess the reliability of the Recovsat instrument, the remaining 16 items were then, as recommended by Churchill (1979), subjected to an internal reliability analysis using the computer programme SAS PROC CORR (SAS Institute 1988).

Table 6.4 shows that the Recovsat instrument demonstrated a high level of reliability ($\propto$ = 0.899), not only in its entirety, but also in respect of the six individual dimensions that make up the instrument.

TABLE 6.4

CRONBACH'S ALPHA

COEFFICIENTS FOR FACTORS

FACTOR	ITEMS MEASURING FACTOR	FINAL CRONBACH'S ALPHA
COMMUNICATION	COMM 1, COMM 2, COMM 3, COMM 4 , COMM 5	0.930
EMPOWERMENT	EMP1, EMP 2, EMP 3	0.803
FEEDBACK	FEED 1, FEED 2	0.838
ATONEMENT	ATONE 1, ATONE 2	0.840
EXPLANATION	EXPLAIN 1, EXPLAIN 2	0.932
TANGIBLES	TANG 1, TANG 2	0.812
RECOVSAT	ALL OF ABOVE	0.899

6.5 DESCRIPTIVE ANALYSIS OF THE INDEPENDENT VARIABLES

According to Welman and Kruger (2002:208), descriptive statistics is concerned with the description and/or summarisation of the data obtained for a group of individual units of analysis.

Table 6.5 shows the independent variables, the total frequency mean and the standard deviation.

TABLE 6.5

DESCRIPTIVE ANALYSIS OF THE INDEPENDENT VARIABLES.

Variable Number	Name	Total Frequency	Mean	Standard Deviation
1	COMM 1	**702**	**3.635**	**1.206**
2	COMM 2	**702**	**3.762**	**1.090**
3	COMM 3	**702**	**3.830**	**1.113**
4	COMM 4	**702**	**3.749**	**1.167**
5	COMM 5	**702**	**3.853**	**1.082**
	COMM CONSOLIDATED	**702**	**3.766**	
6	EMP 1	**702**	**2.933**	**1.333**
7	EMP 2	**702**	**3.037**	**1.385**
8	EMP 3	**702**	**3.316**	**1.344**
	EMP CONSOLIDATED	**702**	**3.095**	
9	FEED 1	**702**	**2.594**	**1.211**
10	FEED 2	**702**	**2.529**	**1.231**
	FEED CONSOLIDATED	**702**	**2.561**	
11	ATONE 1	**702**	**3.064**	**0.935**
12	ATONE 2	**702**	**3.034**	**0.918**
	ATONE CONSOLIDATED	**702**	**3.049**	
13	EXPLAIN 1	**702**	**3.567**	**1.233**
14	EXPLAIN 2	**702**	**3.428**	**1.278**
	EXPLAIN CONSOLIDATED	**702**	**3.497**	
15	TANG 1	**702**	**4.064**	**0.790**
16	TANG 2	**702**	**4.049**	**0.786**
	TANG CONSOLIDATED	**702**	**4.057**	

From the above Table, we arrive at a score for each dimension of service recovery for FNB.

	Mean	Percentage
Communication	3.77	75.3%
Empowerment	3.10	61.9%
Feedback	2.56	51.3%
Atonement	3.05	60.9%
Explanation	3.50	70.0%
Tangibles	4.06	81.1%

The overall Recovsat score, as stated earlier, is 68.1%.

6.5.1 Communication

Under the communication dimension there were five questions which were analysed, and are presented in the form of bar charts in the annexures.

The Communication dimension is measured by the following items;

Comm 1 : The bank employees I dealt with communicated clearly when providing feedback about my complaint.

- Annexure L 1

Comm 2 : When I complained about poor service the bank employees asked questions to help clarify the situation.

- Annexure L 2

Comm 3 : The bank employees I dealt with were very understanding.

- Annexure L 3

Comm 4 : The bank employees I dealt with were reliable.

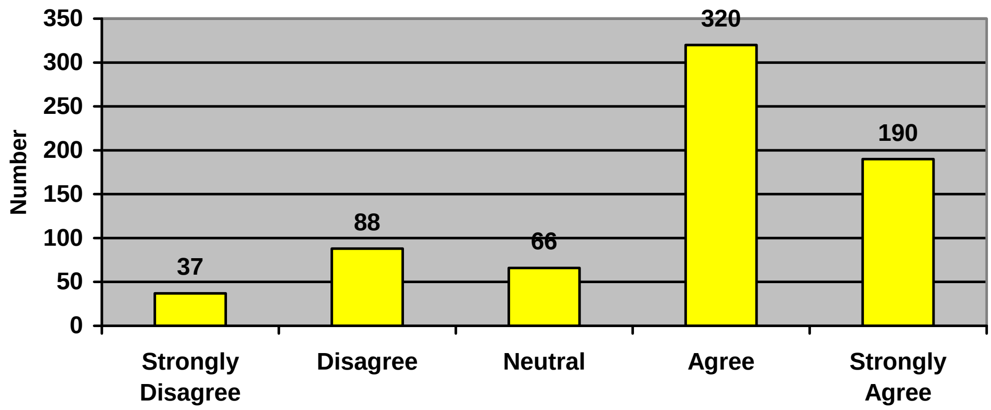
- Annexure L 4

Comm 5 : The bank employees I dealt with were honest in their attempts to solve my problem.

- Annexure L 5

Taking the factor from a consolidated viewpoint (and dividing by 5), the following were the results for the communication dimension.

CHART 6.1
CONSOLIDATED COMMUNICATION



This dimension is one area where FNB appears to be fairly successful, with the majority of respondents in the *agree* and *strongly agree* area.

6.5.2 Empowerment

The factor Empowerment is measured by three questions, and these are in the annexures as follows:

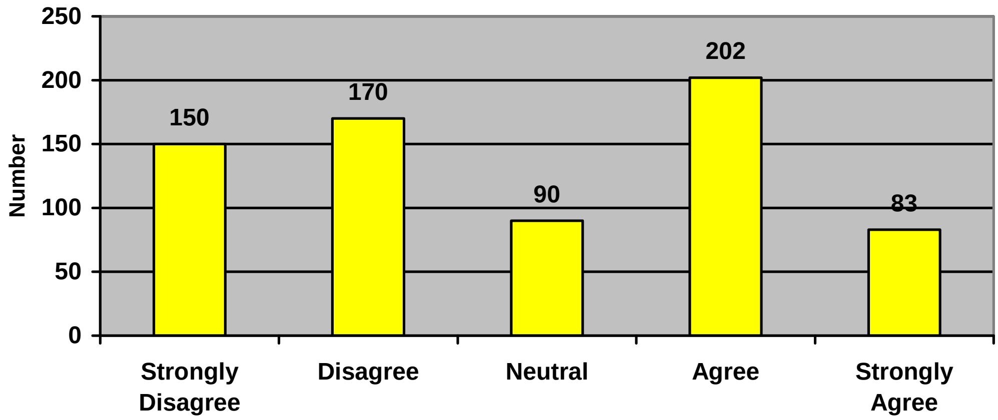
EMP 1 : The employee I complained to first, was able to solve my problem.
- Annexure M 1

EMP 2 : The employees I complained to had to find someone else to solve my problem.
- Annexure M 2

EMP 3 : My complaint was passed on from one employee to the next.
- Annexure M3

The Bar Chart below represents the consolidated results from the three questions divided by three.

CHART 6.2
CONSOLIDATED EMPOWERMENT



Empowerment has not been as successful as communication, with a greater percentage of respondents in the *disagree* side of the chart than in the *agree* side.

6.5.3 Feedback

This factor had only two questions, as feedback 3 had been rejected during the validity assessment.

FEED 1 : The bank informed me in writing about the progress made to solve my problem.

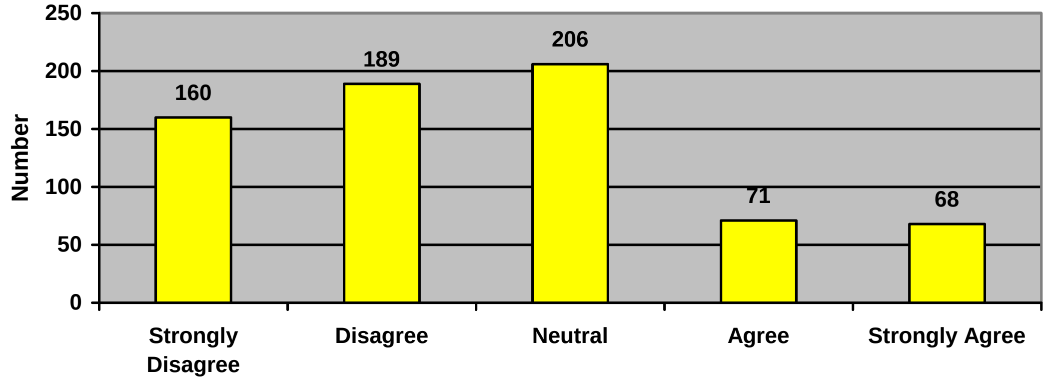
- Annexure N 1

FEED 2 : The bank sent me a written apology.

- Annexure N 2

These consolidated results are represented below.

CHART 6.3
CONSOLIDATED FEEDBACK



This chart indicates an area of weakness for FNB, with a far greater percentage of respondents replying *disagree* with the feedback questions

6.5.4 Atonement

As with feedback, only two atonement questions were analysed.

ATONE 1 : The bank apologised for the financial loss incurred.

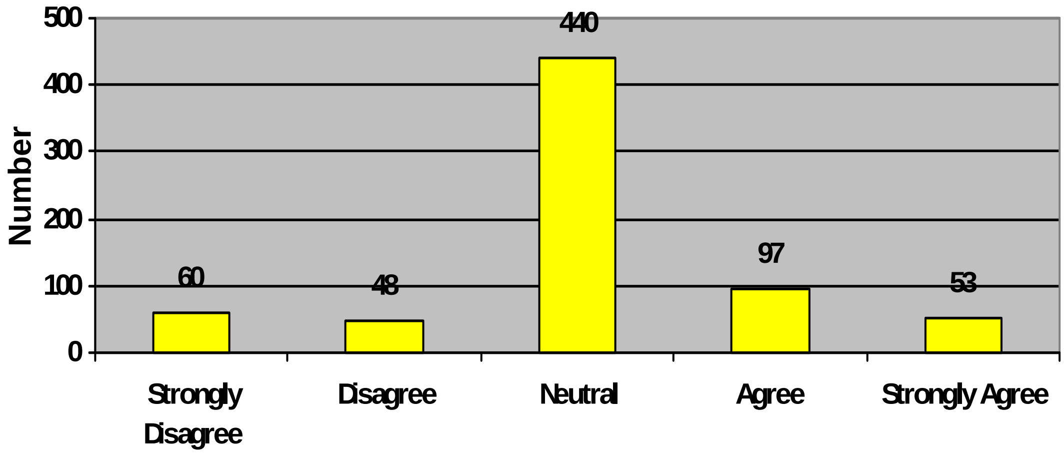
- Annexure 01

ATONE 2 : The bank ensured that any loss was refunded.

- Annexure 02

Consolidated results represented below.

CHART 6.4
CONSOLIDATED ATONEMENT



The Atonement Chart shows that by far the greatest number of respondents were neutral in their responses to the atonement questions. This probably indicates that the complainants did not believe atonement was applicable to their complaint, or that it did not really make a positive or negative impression.

6.5.5 Explanation

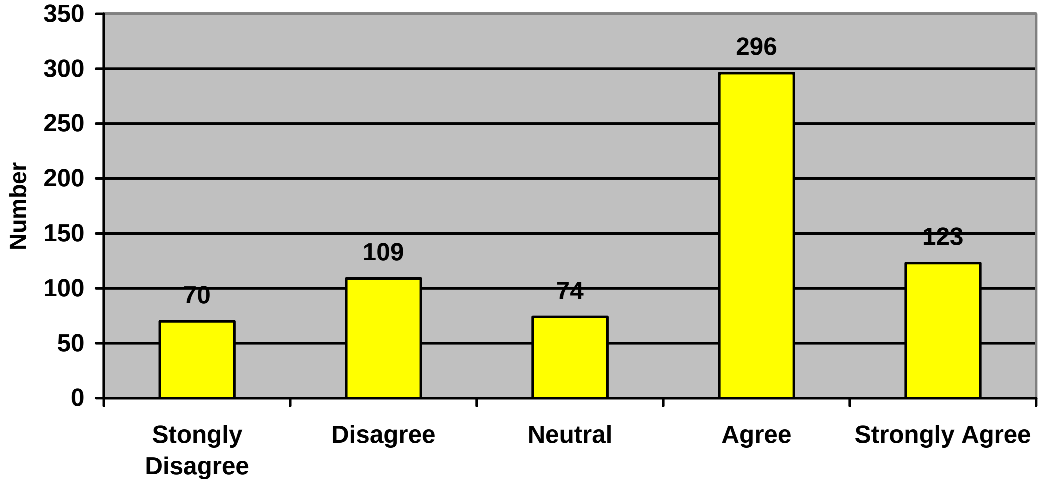
The two questions which were accepted under explanation were:

EXPLAIN 1 : The bank provided me with an explanation of why the problem occurred.
- Annexure P 1

EXPLAIN 2 : The bank employees I dealt with provided a satisfactory explanation of why the problem occurred.
- Annexure P 2

The Bar Chart below shows the consolidated results.

CHART 6.5
CONSOLIDATED EXPLANATION



On this dimension, FNB enjoyed a strong positive response, with a*gree* and *strongly agree* ratings outweighing the negative responses. It thus appears that this dimension is an FNB strength.

6.5.6 Tangibles

Two questions relating to dress and environment were accepted.

TANG 1 : The bank employees I dealt with were well-dressed.

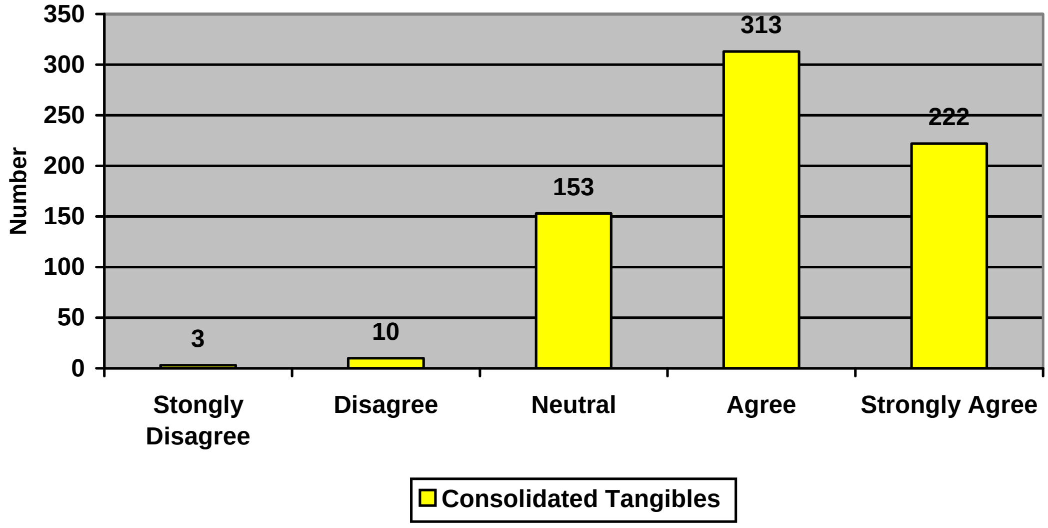
- Annexure Q 1

TANG 2 : The bank employees I dealt with worked in a tidy, professional environment.

- Annexure Q 2

The Bar Chart below shows the consolidated results

Chart 6.6
CONSOLIDATED TANGIBLES



Tangibles is one of the strongest dimensions, with only 13 *strongly disagree* and *disagree* responses.

Overall, the Recovsat score is low, owing to low scores on feedback, and to some extent on empowerment.

6.6 DESCRIPTIVE ANALYSIS OF THE DEPENDENT VARIABLE

6.6.1 Customer Satisfaction

Customer satisfaction is the dependent variable for the six independent variables. The results from the 702 questionnaires received showed a mean of 7.34 and a standard deviation of 2.32. The two questions

SAT 1 : How satisfactory was the bank's efforts to solve your problem?

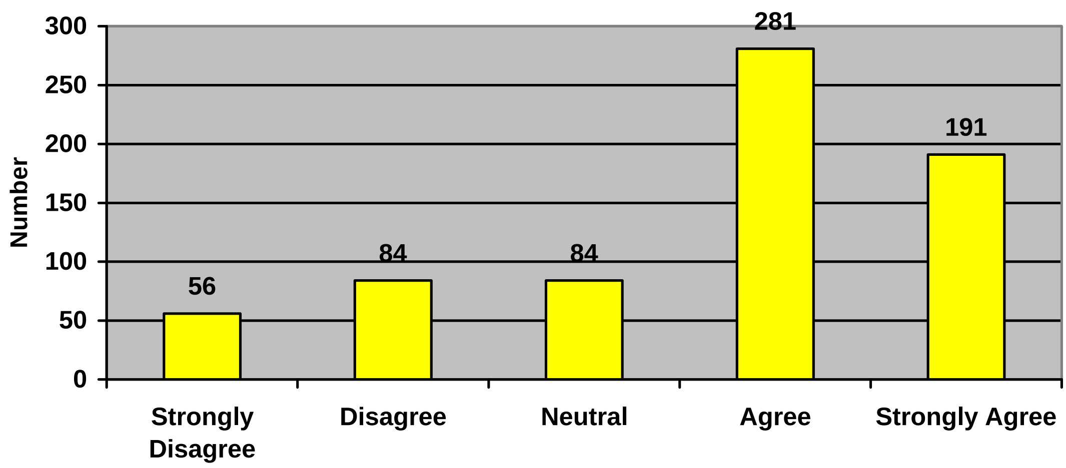
- see Annexure R 1 and

SAT 2 : Overall, I was satisfied with the way my complaint was handled.

- see Annexure R 2

are combined and reflected in the Bar Chart below.

CHART 6.7
CONSOLIDATED CUSTOMER SATISFACTION



Customer satisfaction overall appears to be a strength, with a high *agree* and *strongly agree* rating.

6.6.2 Loyalty

Loyalty, in terms of the literature, is a function of customer satisfaction, and in this study two questions were addressed.

LOYAL 1 : I am a loyal FNB client.

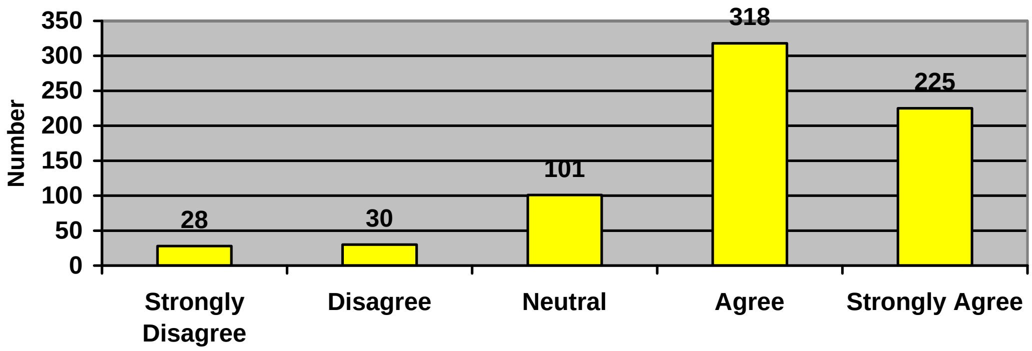
- see Annexure S 1

LOYAL 2 : I will continue to use FNB in the future.

- see Annexure S 2

By combining the results, we have the results as depicted in the Bar Chart below;

CHART 6.8
CONSOLIDATED LOYALTY



FNB appears to have a high number of loyal customers, with only 58 respondents being negative.

The results from the 702 respondents showed a mean of 7.650 (out of 10) and a standard deviation of 1.89.

6.7 MULTIPLE REGRESSION ANALYSIS

This section investigates the relationships between each of the independent variables (the S/R dimensions) and customer satisfaction. This analysis was done using multiple regression analysis with the SAS statistical programme (SAS Institute, 1990).

Table 6.6 presents the results of the multiple regression analysis, with satisfaction as the dependent variable, and the six factors (the S/R dimensions) as the independent variables. The findings reveal that three factors, communication, atonement, and explanation, were significant at the 1% level, and empowerment at the 5% level. Feedback and tangibles were not found to be significant at either the 1% or the 5% level of significance.

TABLE 6.6

The effect of the six service recovery dimensions on satisfaction.

Dependent Variable : Satisfaction

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	6	2104.102	350.683	143.520	0.0001
Error	695	1698.160	2.443		
Corrected	701	3802.263			
Total		R Square			
		0.553			

Parameter	Estimate	T for H_o Parameter = o	Pr > T	Std error of Estimate
Intercept	-.603	-1.58	0.114	0.381
Comm	0.167	11.02	0.001	0.015
Empower	0.049	2.49	0.050	0.019
Feed	0.050	1.78	0.075	0.028
Atone	0.253	6.59	0.001	0.038
Explain	0.278	8.85	0.001	0.031
Tang	0.070	1.65	0.099	0.043

The R^2 value for the analysis reported in Table 6.6 shows that the six S/R dimensions explain 55.3% of the variance in the dependent variable – satisfaction.

The empirical results in Table 6.6 are graphically depicted in Figure 6.1.

FIGURE 6.1

Thus from Table 6.6 and Figure 6.1, we note that there is a positive relationship between communication and satisfaction in service recovery, with a t score of 11.02. Based on these results, H_1 which states that improved communication in service recovery will exert a positive influence on customer satisfaction, is accepted at the 1% level of significance. This finding is supported by other hypotheses in the literature, including those of Johnston (1994) and Boshoff (1999).

Explanation is the second independent variable which is positively related to satisfaction (t = 8.85). Thus H_5, which states that the explanation of why the problem occurred will exert a positive influence on customer satisfaction, is also accepted at the 1% level of significance. This finding also receives strong support from the literature, where Boshoff (1999) linked explanation to customer satisfaction in service recovery, as did Davidow (2003).

The third variable that is positively related to satisfaction is atonement ($t = 6.59$). Hypothesis 4, which states that positive atonement in service recovery will exert a positive influence on customer satisfaction, is also accepted at the 1% level of significance. There is also a body of evidence in the literature which supports this view, including that of Boshoff (1999), Mattila (2001), Zemke and Bell (1992), and Davidow (2003).

The fourth independent variable to have a positive relationship with satisfaction ($t = 2.49$) was empowerment. $H_{2,}$ which states that the empowerment of employees will exert a positive influence on customer satisfaction in service recovery, is accepted, but only at the 5% level of significance. There is also support for this finding from the literature with Johnston (1994), Boshoff (1999), Leong (1996) and Allan (1996) all concluding that empowerment is important in service recovery.

The other two independent variables, namely, feedback and tangibles, although positively related to satisfaction, were not found to be statistically significant in this sample at either the 1% or the 5% level and thus H_3 and H_6 were rejected. There is, however, evidence in the literature which has a different view to these results. Boshoff in 1999 found both to have an influence on satisfaction, while Parasuraman et al. (1988) stated that tangibles and responsiveness were essential elements necessary to assess customer perceptions of service quality.

6.8 CORRELATION ANALYSIS

This section investigates the relationship between satisfaction and loyalty. This analysis was achieved by using the Pearson correlation analysis.

The following Figure 6.2 gives a representation of this relationship.

FIGURE 6.2

THE RELATIONSHIP OF SATISFACTION AND LOYALTY

Satisfaction is often seen as a short-term goal, with loyalty being the longer-term sustainable objective. It is therefore important to understand where there is a positive relationship between satisfaction and loyalty.

Figure 6.2 shows from the correlation analysis, that a positive relationship exists ($r = 0.486$; $p < 0.001$) between satisfaction and loyalty. Hypothesis 7, which states that satisfaction with SR will exert a positive influence on loyalty, is therefore accepted at the 1% level of significance. This finding has strong support from the literature, with Hart et al. (1990), Zemke and Bell (1990), Boshoff (1999), Reichheld (1993) and Heskett et al. all supporting this relationship.

6.9 SECONDARY DATA ANALYSIS

This section analyses the nature of complaints from the 702 complainants, their length of relationship, age and gender analysis.

6.9.1 Nature of Complaints

Table 6.7 below lists the findings in terms of 19 categories, with administration and errors accounting for the highest number of complaints. Communication is seventh at 6.1% while the Banking Adjudicator's research (Markinor, 2002:4) found this to be the number one item. Thus communication is seen to be important in both the breakdown and recovery of service.

TABLE 6.7

NATURE OF COMPLAINTS

	Category	Number	% of Total
1)	Admin and Errors	164	23.4%
2)	Pricing, Fees and Interest	66	9.5%
3)	Time Delays / Waiting	59	8.5%
4)	FirstCard	52	7.4%
5)	Attitude of Staff	49	7.0%
6)	Credit Related / Lending	49	7.0%
7)	Communication	43	6.1%
8)	Other	43	6.1%
9)	Electronics / ATM / Systems	32	4.6%
10)	Home Loans	26	3.7%
11)	Other Product Houses	22	3.1%
12)	e-Bucks	21	3.0%
13)	Branch Issues	18	2.6%
14)	Fraud / Crime Related	15	2.6%
15)	Statements	14	2.0%
16)	First Direct	8	1.1%
17)	Investments	8	1.1%
18)	Not stated	8	1.1%
19)	Staff Knowledge	5	0.7%
	TOTAL	**702**	**100%**

6.9.2 Length of Relationship

Table 6.8 gives an overview of the length of relationships of the complainants with FNB.

TABLE 6.8

LENGTH OF RELATIONSHIPS

Number of Complainants	Length of Relationship
128	0-3 years
88	4-6 years
78	7-9 years
341	over 10 years

From this Table it is clear that the majority (54%) of people who actually took time to complain, had been with FNB for over 10 years. This may be because, after 10 years, they knew many staff members, felt comfortable to complain, or knew their rights better, as they understood the process.

What is of concern, however, is that the profitability of the relationship often grows with time, and these are the relationships that FNB would not want to lose.

6.9.3 Age Analysis

The respondents were segmented into six age brackets with a view to assess if any particular age group would have a greater propensity to complain.

TABLE 6.9
AGE ANALYSIS OF COMPLAINANTS

Number of Complainants	Age Group
2	0-21
67	22-29
160	30-39
150	40-49
115	50-59
157	60 Plus

From Table 6.9, it is clear no single group dominates, and that people who take the time and trouble to complain can come from all age groups. However, three groups, the 30-39, 40-49 and 60 plus, each represented approximately 25% of complainants.

6.9.4 Gender

The question arises: Are the number of complainants representative of the client base, or does a particular gender complain more than the opposite sex?

Table 6.10 represents the number of male and female complainants, the customer base according to gender and the percentage of base.

TABLE 6.10

GENDER ANALYSIS

	Complainants		FNB – Cheque Base Customers	
	Male	**Female**	**Male**	**Female**
Number	422	261	205 910	139 090
Percentage	62%	38%	60%	40%

From this Table, it appears that this sample reflects very similar percentages to FNB's metropolitan cheque base, and thus gender does not appear to play a role in complaints.

6.10 SUMMARY

The present results from this empirical study suggest that the Recovsat instrument demonstrated excellent validity and reliability.

Of the six independent variables assessed through regression analysis, communication, empowerment, explanation, and atonement showed a positive relationship with satisfaction. Through correlation analysis a positive relationship between satisfaction and loyalty was established, tying in with evidence from the literature.

The research showed that FNB is only moderately effective in service recovery, with a score of 68.1%. Tangibles at 4.05 was the most effective, followed by Communication 3.76, Explanation 3.49, Empowerment 3.09, Atonement 3.05, and Feedback 2.56. Unfortunately, tangibles (best) and feedback (worst) proved not to have a statistically significant relationship with satisfaction, and thus the other four variables need to receive the focus of future managerial endeavours to improve SR at FNB.

The findings from this study have implications for the determinants of service recovery, and this topic is addressed in Chapter 7.

CHAPTER 7: MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

Service Recovery is a field that has not been extensively researched, but findings to date indicate that the way in which a company responds to service failure will have implications for its success.

This chapter outlines the managerial implications of the research findings, and provides recommendations based on the empirical results of this study. The chapter then covers the limitations of the study, and suggests areas for further research.

7.2 MANAGERIAL IMPLICATIONS

7.2.1 Overview

From the literature review in chapters 2, 3 and 4, it is evident that in banking, service is an important differentiator. Customers expect outstanding customer service, and if the organisation fails, then they often do not use that organisation again in the future. This has significant cost and profitability implications for companies, as it costs more to attract a new client than to retain an existing one.

In the services industry, owing to its nature, service failure is likely to occur at some point, therefore it is vital that, when service failure does occur, the organisation recovers effectively.

Service recovery should therefore be a vital part of every company’s service plan, and accountability should reside at the highest level. An effective customer-complaint handling (CCH) system needs to be implemented to ensure that the organisation is able to deliver outstanding service quality.

From the empirical research in this study on 702 complainants, a Recovsat score of 68% was computed. This indicates that FNB's service recovery is no more than satisfactory, and if they are serious about outstanding service quality, a score of under 80% should not be accepted.

The Banking Adjudicator has said that, in his view, banks did not have effective CCH systems as many complaints referred to him would have been solved by the banks themselves if they had speedy and efficient CCH processes. There is therefore also a need to adhere to the Code of Banking Practice (COBP) regulations.

FNB's poor score is a reflection of the following;

- their lack of complaints management information systems (MISs), especially at branch level;
- the lack of group uniform system for handling complaints;
- the absence of standards and guidelines to guide service recovery procedures, and
- the fragmented way of handling complaints.

Currently, FNB has no accurate record of the number of complaints handled at branches, and whether the complaints are being handled efficiently or not. The process is very much a manual process, with branches completing a customer complaint log and then following up the complaint resolution at the branch. There is thus a strong need for an automated and integrated (nationally and inter-group) CCH to be designed and implemented.

The empirical research highlighted areas where FNB was strong, and other areas where they were weak, as well as areas in which dimensions were statistically more positively correlated to customer satisfaction than others. These findings should be taken into account when designing a comprehensive service recovery strategy.

7.2.2 Communication

From the research, communication had the strongest positive relationship with customer satisfaction, and it is therefore important that in a service recovery strategy, the manner in which service employees address the customer lodging a complaint, is focused on, in the training of employees. FNB's consolidated communication mean was 3.76 or (75.2%), which was one of the better dimension results.

7.2.3 Explanation

The second highest positively correlated dimension to customer satisfaction was explanation. Customers want the service provider to explain in a clear and concise manner why the problem occurred, and therefore this has to be built into the feedback mechanism to the customer. FNB's consolidated explanation score was 3.50 or (70%).

7.2.4 Atonement

This dimension which relates to providing some value-added compensation to "make up" to the customer for inconvenience caused by the service failure, also had a strong positive correlation to customer satisfaction, and thus needs to be accommodated in a recovery plan. Guidelines could be put in place regarding what could be given as compensation, and at what levels this could be done. FNB was rated at 3.42 or (68%) on this dimension.

7.2.5 Empowerment

Empowerment is seen by many previous studies (Zemke, 1994; Hart, Heskett and Sasser, 1990) as a key determinant in any company's ability to recover. This study reinforced the view that it is important that employees have authority to act, have resources to refer to, and are permitted to act. FNB scored only 3.09 or (62%), which implies that customers do not see FNB's employees as empowered to solve their problems at the front line.

Customers want a personal touch in banking, and therefore it is important in designing a comprehensive service recovery strategy, that empowerment is addressed, especially at the front line level. While training and development is important in giving employees a perspective on service recovery, companies need to empower their staff to act.

7.2.6 Tangibles

Although tangibles (i.e. how people are dressed, the physical environment, equipment etc.) is positively related to customer satisfaction, this relationship was not statistically significant, therefore being less important than the above four. Notwithstanding this, appearance should still be addressed in a recovery plan. FNB scored 4.05 or (81%) on this dimension.

7.2.7 Feedback

Feedback, which relates to a situation in which, once a problem is solved, the service firm provides information about the problem and what was being done to resolve it. This was also not statistically significant, but nevertheless still positively related to customer satisfaction.

The managerial implication from this is that feedback should be built into a recovery strategy, but the emphasis will not be as great as those for communication, explanation, atonement and empowerment. FNB performed poorly on this dimension, with a score of 2.56 or (51%).

7.2.8 Loyalty

The empirical study reinforced the view that customer satisfaction is positively related to loyalty. The implication of this is that, if you do not have an effective service recovery strategy, customer satisfaction will drop, and as a consequence loyalty will be affected, which ultimately impacts on profitability.

7.2.9 Secondary Data

7.2.9.1 *Nature of Complaints*

Administration and errors comprised 23.4% of all complaints. These mistakes need to be addressed, and can eliminate a large percentage of the customer complaints if systems are improved and employees are held accountable for their errors.

The second highest complaint was pricing, fees and interest. FNB needs to carefully monitor its increases, to ensure that it does not price itself out of the market.

Time delays/waiting was third at 8.5%. Effective queue management strategies need to be investigated, as this is still a high percentage of complaints.

Other complaints, due to, Firstcard at 7.4%, Electronics 4.6%, Home Loans 3.7% and other product houses 3.1%, all indicated that FNB branch employees are reliant on other divisions to deliver excellent service. The managerial implication here is that the service recovery strategy has to be nationwide and inter-divisional, otherwise a large percentage of these complaints will not be addressed.

7.2.9.2 ***Length of Relationship***

Over 54% of complainants had been with the bank for over 10 years. These are profitable clients, and should not be lost. It is important that FNB keeps a close relationship with these clients, and has a contact strategy in their recovery plan.

7.2.9.3 ***Age Analysis***

Age does not appear to be a factor in complaints.

7.2.9.4 ***Gender***

There is also no gender bias.

Therefore, in any service recovery strategy no differentiation needs to be made for age or gender.

7.3 RECOMMENDATIONS

From the empirical study it is evident that FNB needs to improve their service recovery strategy, and the implementation of a CCH system seems essential.

The following are recommended.

A) Implement an automated and integrated CCH system which is both national and inter-group. The system must offer routing, escalation and tracking capabilities and provide management information.
B) Implement turnaround time deadlines.
C) Empower employees to solve complaints.
D) Train employees in communication skills, to listen, ask questions, acknowledge customers' feelings, and to accept responsibility.
E) Explain timeously why the problem occurred.
F) Apologise in writing.
G) Offer some value-added atonement for the loss and inconvenience.
H) Provide feedback in writing, in an acceptable period, to the customer.
I) Dress professionally, and ensure that the workplace is tidy.
J) Introduce service level agreements between business units relating to the handling of complaints (including turn around times, service levels, and penalties for lack of service).
K) Develop a communication strategy that makes customers aware of how and where to lodge possible complaints.
L) Appoint a Director responsible for complaint handling.

If FNB follows these recommendations, their service recovery will improve, and so will their customer satisfaction, loyalty and profitability.

7.4 LIMITATIONS OF THE STUDY, AND AREAS FOR FURTHER RESEARCH

The first limitation of this study is its specificity. The study was restricted to one financial institution and ideally, to assess the generic nature of the instrument, this could be extended to other banks in the SA market. Also, to assess the Recovsat instrument further for reliability and validity, it could be used in other industries such as airlines or car rentals. The instrument could then be said to be generic, and usable in any service industry.

The second limitation relates to the sample utilised. Only complaints from metropolitan areas were assessed. This sample could be extended to cover complaints from banking clients in rural areas as well.

A third limitation was the structure of the questions in the questionnaire. Only closed questions were asked, and the questionnaire did not allow for free-flow responses.

While each limitation can be considered to be valid, they should not in any way overshadow the relevance and importance of the findings of this study. In future this instrument could be applied to banks internationally to achieve a benchmark rating, and individual banks' scores could then be compared to this benchmark to assess their service recovery effectiveness.

Within a bank, divisions, zones, catchments or branches could also be assessed and a Recovsat score calculated for each area.

On the academic front this study has contributed to the body of knowledge in service recovery and provides a foundation for further research. From a practical point of view it benefits FNB as it highlights the status of service recovery in the company and offers recommendations on how improvements can be made.

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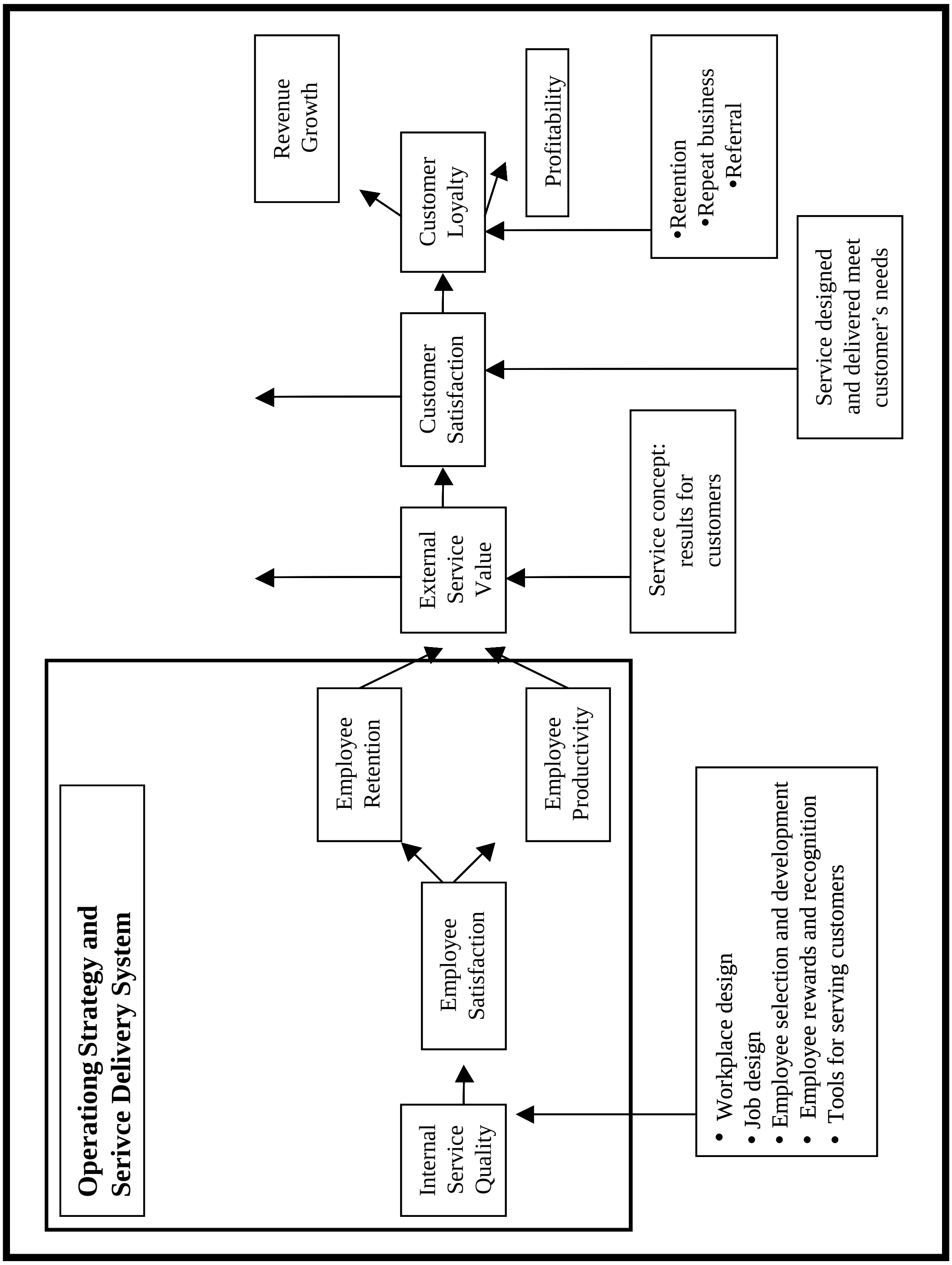
ANNEXURES

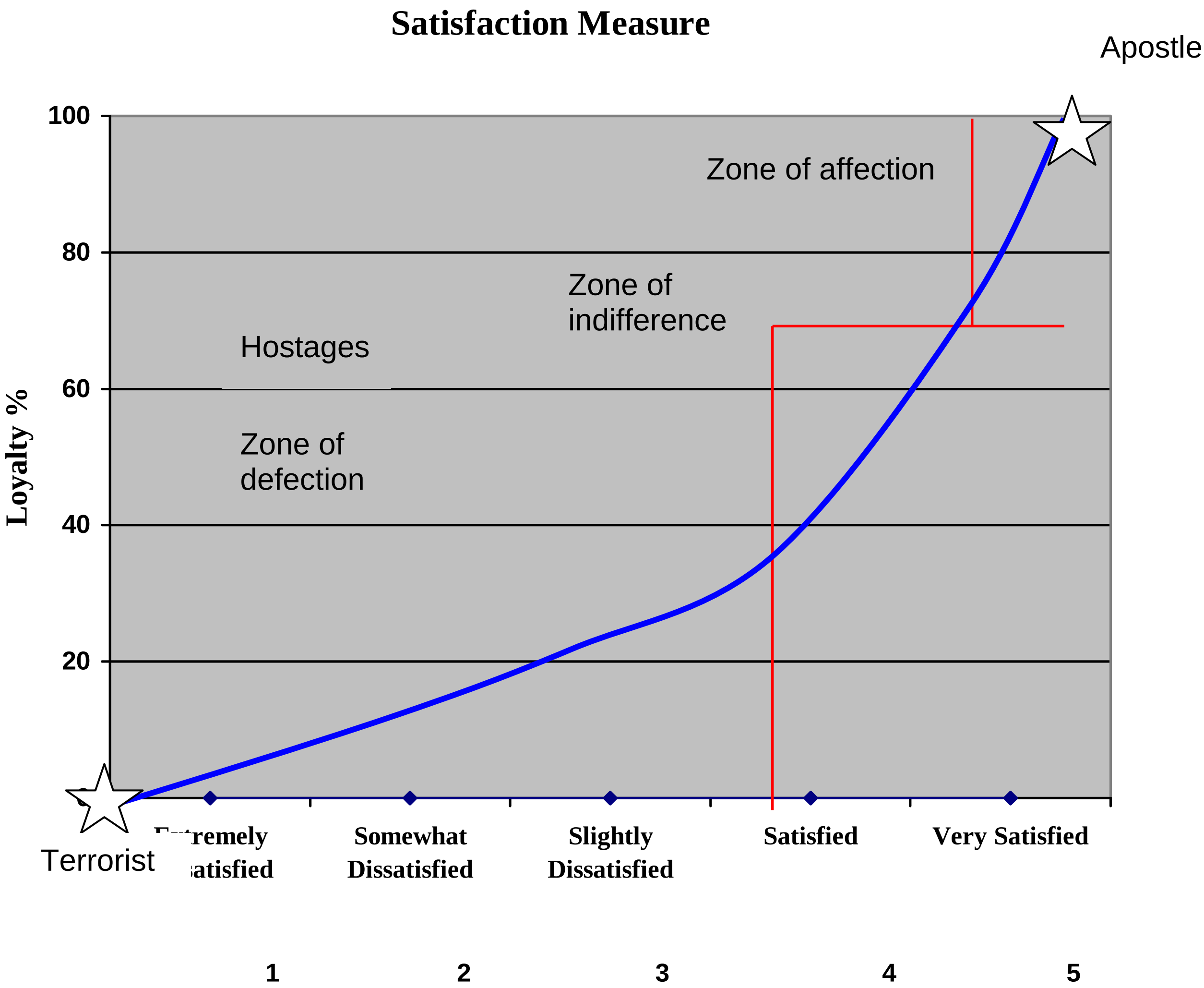
ANNEXURE A

ANNEXURE B

SERVICE PROFIT CHAIN



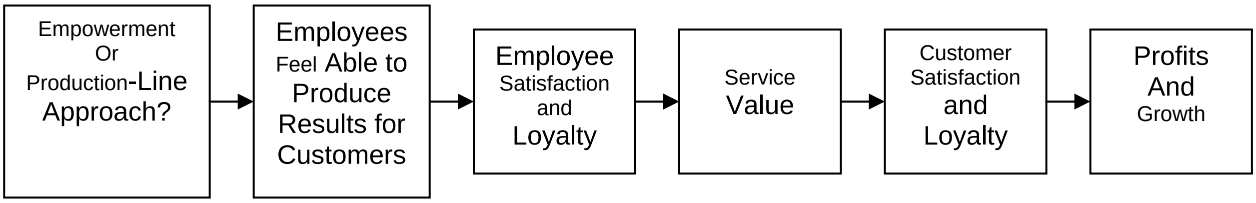
Relationship between customer satisfaction & loyalty



ANNEXURE D

The Possible Linkages between Empowerment and the Service Profit Chain

The Service Profit Chain*



Adapted from Heskett et al., “Putting the Service Chain to Work,” *Harvard Business Review,* March-April 1994, pp. 164-174

ANNEXURE E

ANNEXURE G

COMPLAINTS HANDLING CHECKLIST

	Score (1) to 5(high)	***Score***
1.	All my staff understand that it costs at least five times more to gain a new customer than to keep an existing one.	……………
2.	We make it easy for customers to tell us when they are dissatisfied; indeed, we help them complain.	……………
3.	We aim to settle complaints on the spot; we give employees the power to do so.	……………
4.	We respond to every complaint within 24 hours.	……………
5.	Every response is handled in a personal manner.	……………
6.	We measure how satisfied our customers are with our complaints handling.	……………
7.	We record and analyse all complaints and use this information to improve our service.	……………
8.	We have a director responsible for complaints handling.	……………
9.	All executives receive an analysis of complaints patterns and details of individual serious complaints.	……………
10.	We have trained our employees in complaints handling	……………

ANNEXURE H

ANNEXURE I

ANNEXURE J

EXAMPLE

MEASURING CUSTOMER SATISFACTION WITH SERVICE RECOVERY

A research proposal prepared for

FIRST NATIONAL BANK

INSTRUCTIONS TO INTERVIEWERS:

1. Interview only those people who have actually complained.

2. Place a circle around the appropriate answer.

3. Try to get everyone to respond to all questions but if really not applicable then this question must be left blank.

4. Questions must be read to respondents **exactly** as on the questionnaire.

5. Please record your contact details on the last page of the questionnaire.

APPENDIX A

Dear Sir

Atonement

INFORMATION SHEET

ANNEXURE K

Gareth Davies
Sales and Service Director
Port Elizabeth

Dear SSD

MBA THESIS – SERVICE RECOVERY IN FNB

I am writing to you to request your assistance in a project that I'm doing for my MBA thesis on service recovery in First National Bank. This project has the blessing of Zweli Manyathi and the four CEO's of the zones. I would appreciate it if your SSM's could complete these questionnaires over the next six months to end of March 2003.

As it is important that we get honest and accurate feedback, kindly request your SSM's to interview clients of another outlet in your catchment who have complained about any aspect of our service. The objective of this research is not to find fault with the service in any particular area but rather to get an assessment of our situation in FNB and propose strategies to improve our service recovery.

In South Africa firms fall short of customer expectations and in trying to recover from service failure they apply inappropriate actions causing service failure for a second time. You will note that in FNB we fell short in service recovery during the recent CSI.

This study will use the RECOVSAT© instrument to measure First National Bank's client's satisfaction with service recovery. (Please note this questionnaire has copyright and cannot be distributed to third parties).

Research has shown that satisfaction with service recovery consists of six dimensions. It means that when clients complain they expect:

- the service firm to communicate with them effectively
- the person they complain to, to solve their problem (empowerment)
- to receive written feedback about the progress being made to solve the problem

- to receive an apology and ensure that they are not left "out of pocket"
- to receive an explanation of how and why the problem occurred
- employees that they interact with to be professionally dressed and to work in a professional environment

The question is does FNB meet these expectations when its clients complain?

To answer this question will be the objective of this research project.

I attach a schedule indicating how many questionnaires I would like completed by your catchment over the next six months and would appreciate it if you would distribute them equally to the SSM's in your outlets and ask them to forward them on to me monthly once completed by the client who had a complaint. This questionnaire can either be posted to

Gareth Davies
SSD Port Elizabeth
293 Cape Road
Port Elizabeth
6045

or fax for my attention at fax number 041 3908108

With regard to tracking who complained recently, I am sure most SSMs keep a record book of customer complaints. I believe Marie-Louise van Rooyen in Metro Service and Mike Nolan at Bankcity also have a database of customer complaints

If anybody has any questions or requires any further information, please contact me at 041 3908266 (business) or 0829265709 (cell).

I really appreciate your support.

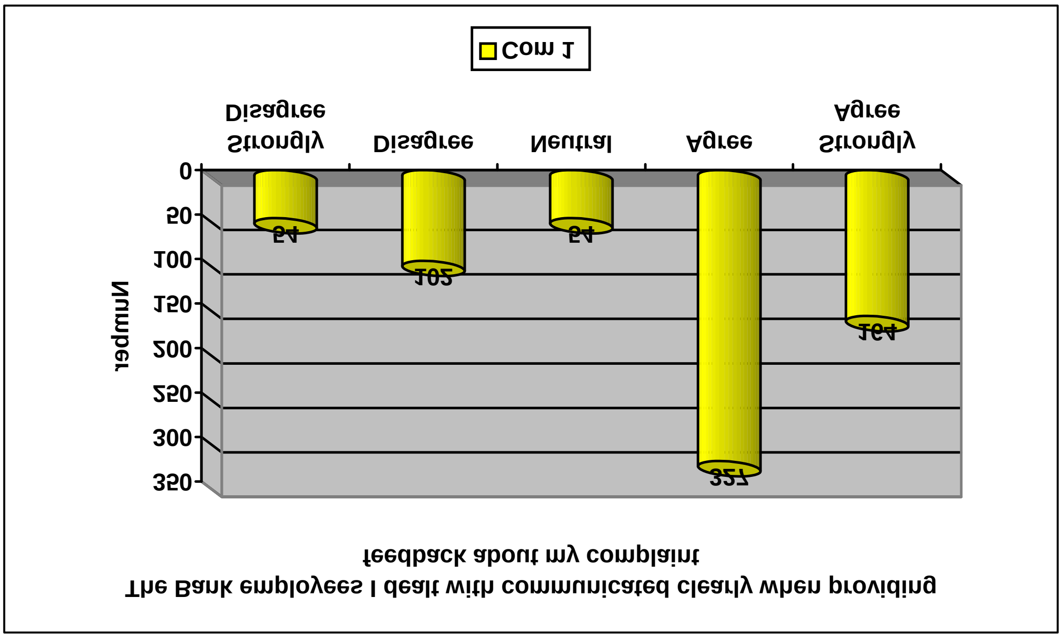
Regards

Gareth

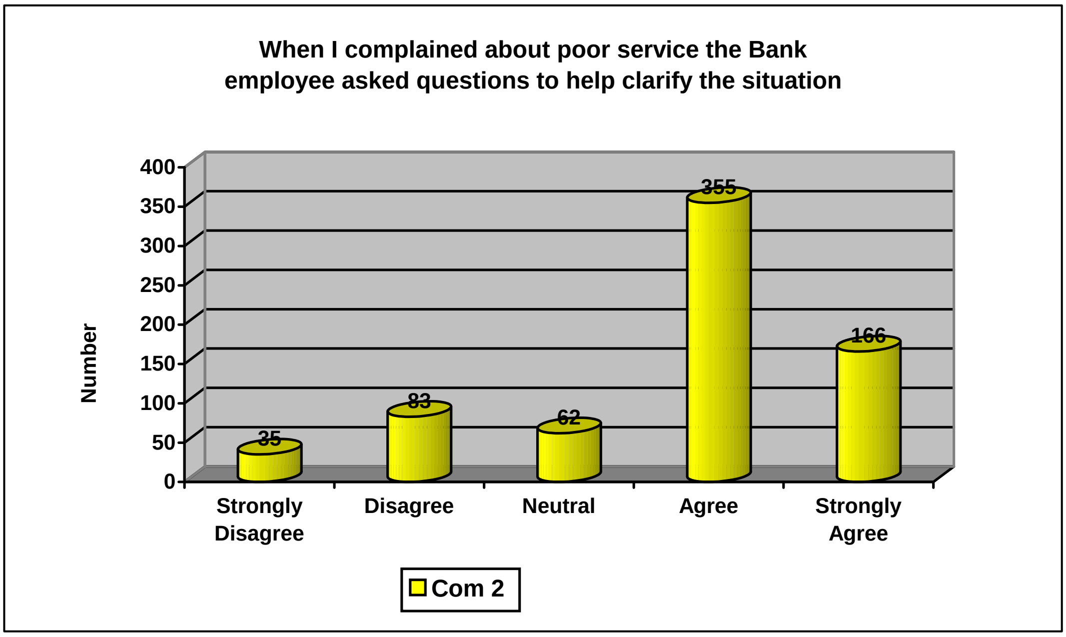
CATCHMENT

ZONE

ANNEXURE L1



ANNEXURE L 2



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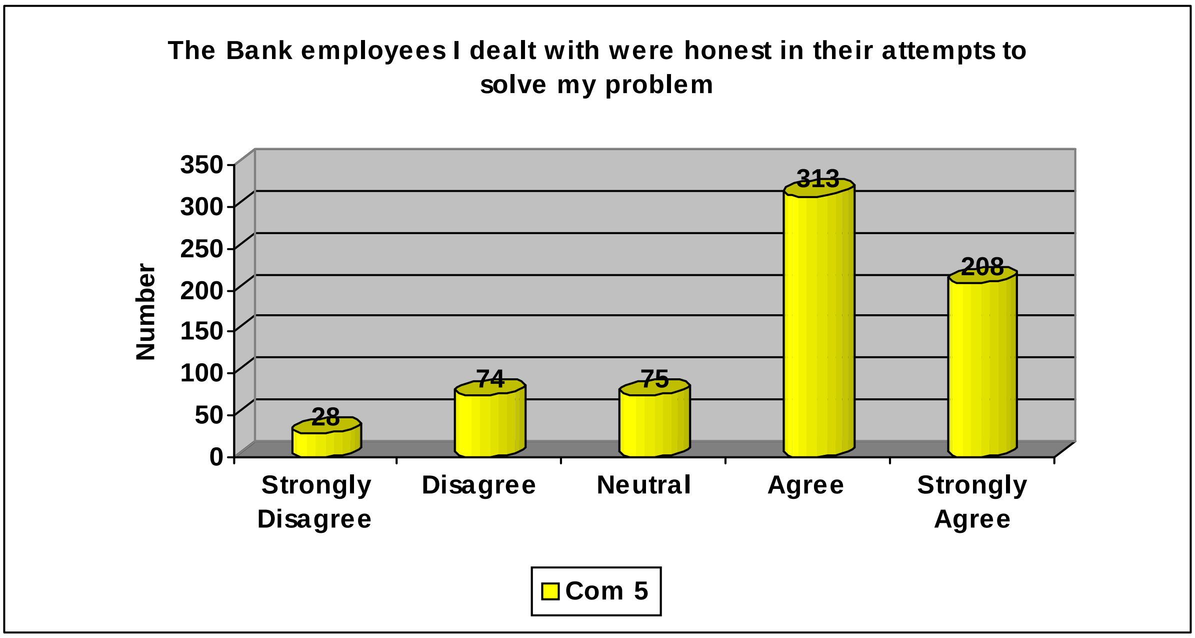

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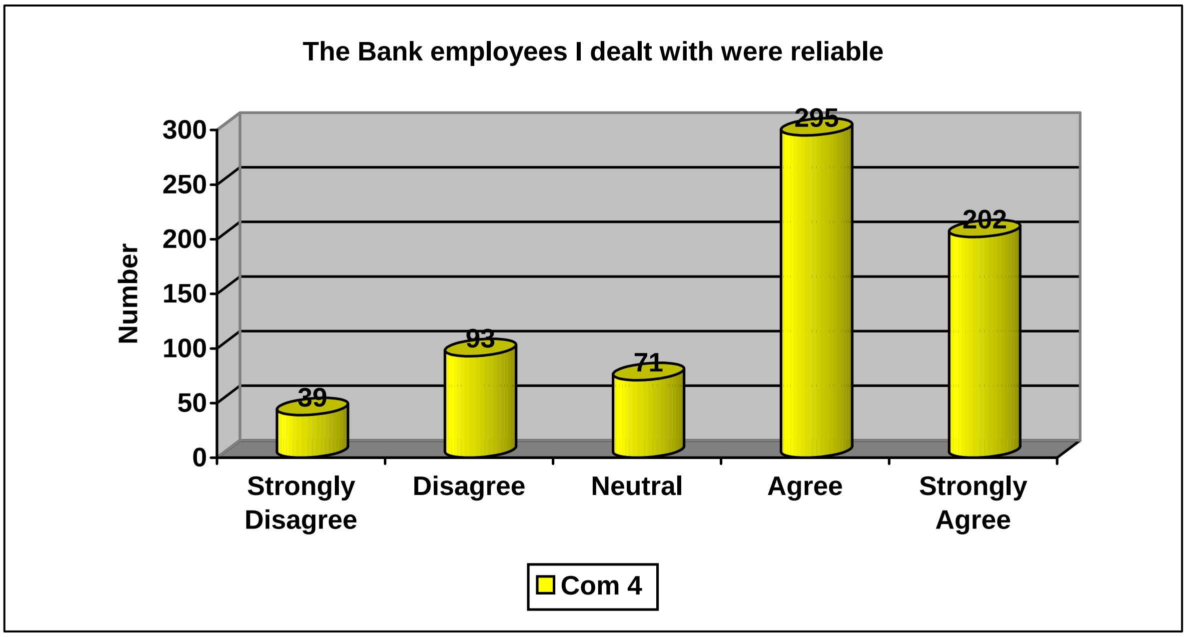
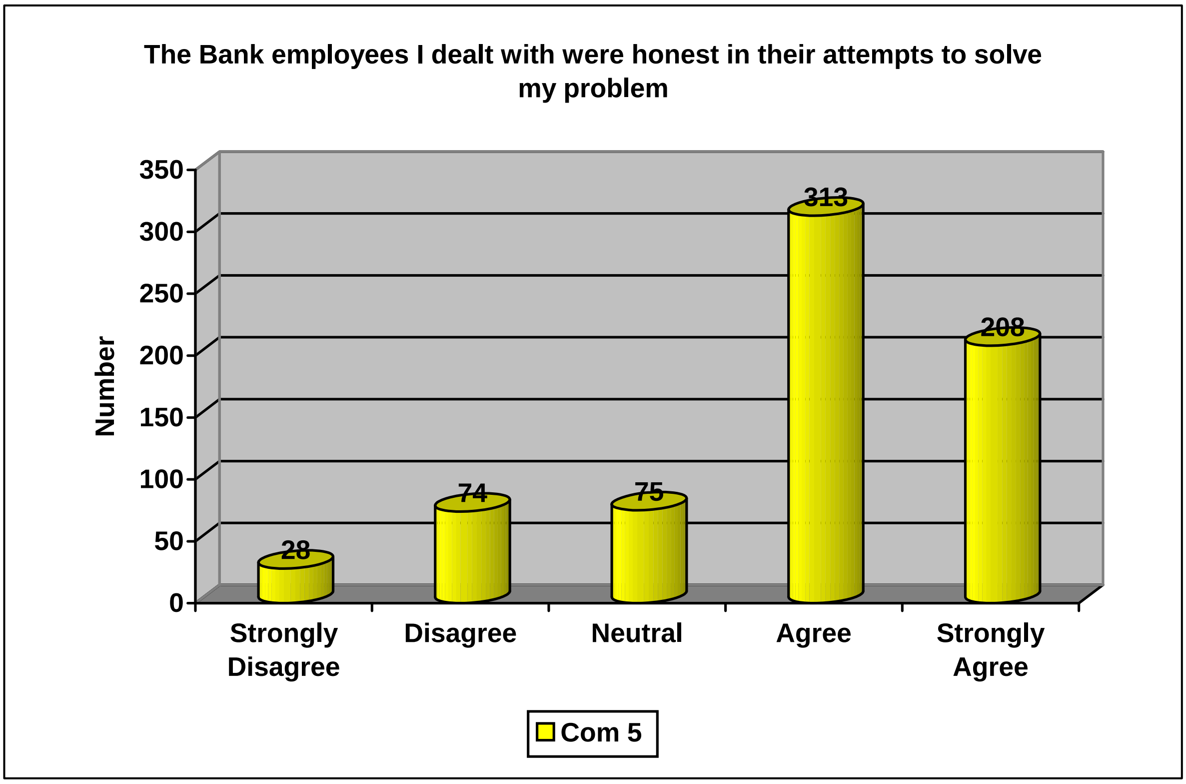
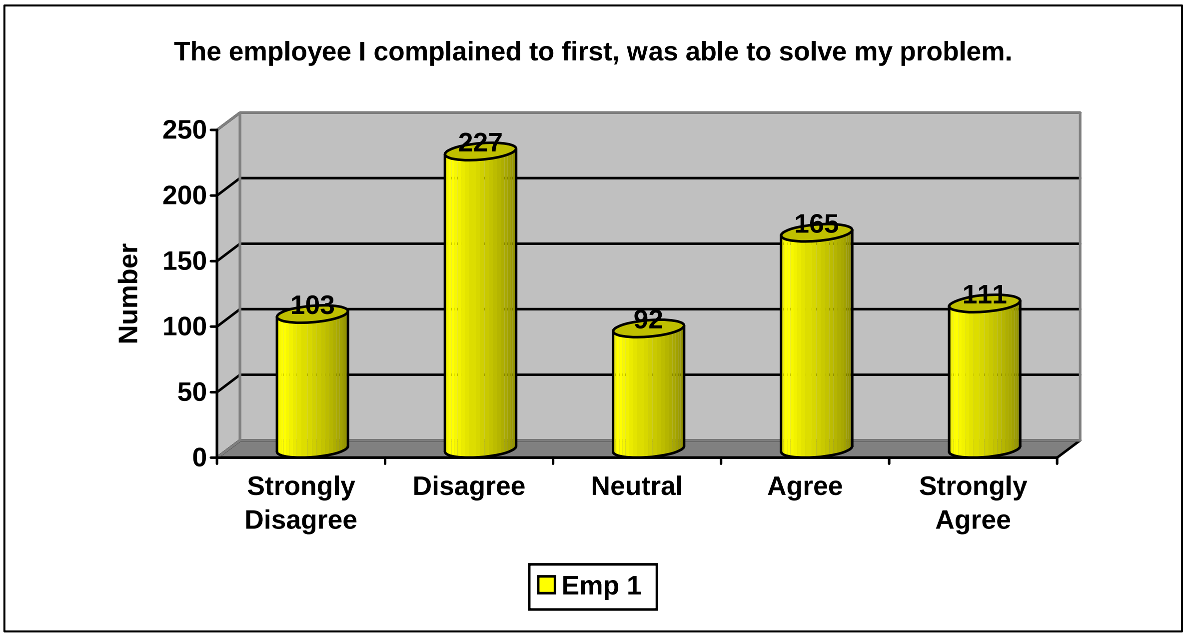


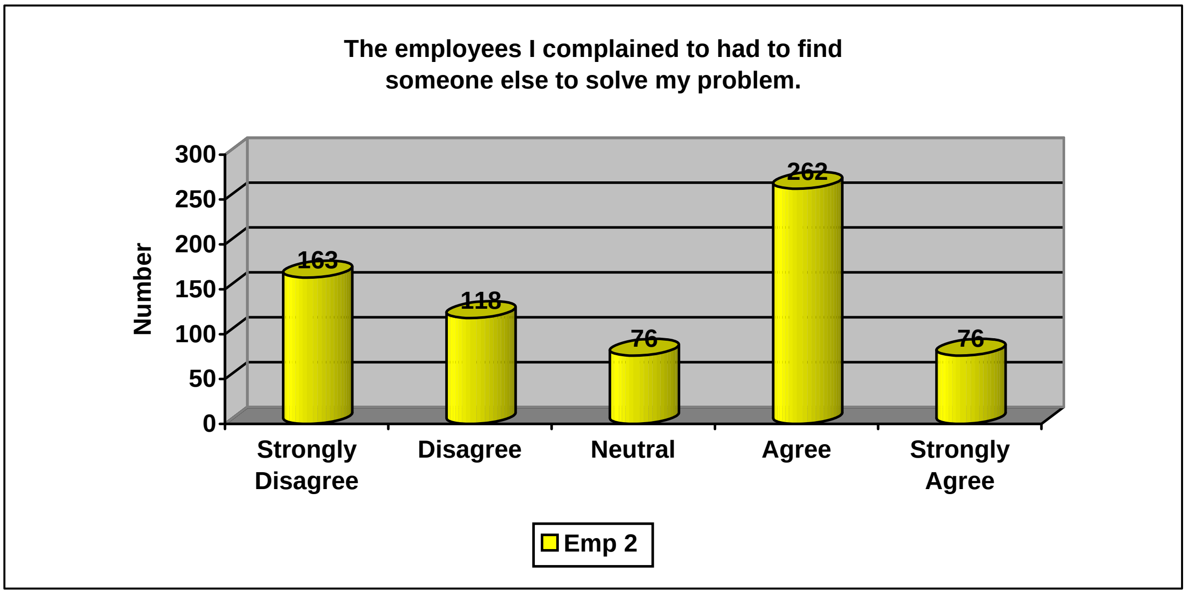
ANNEXURE L 5

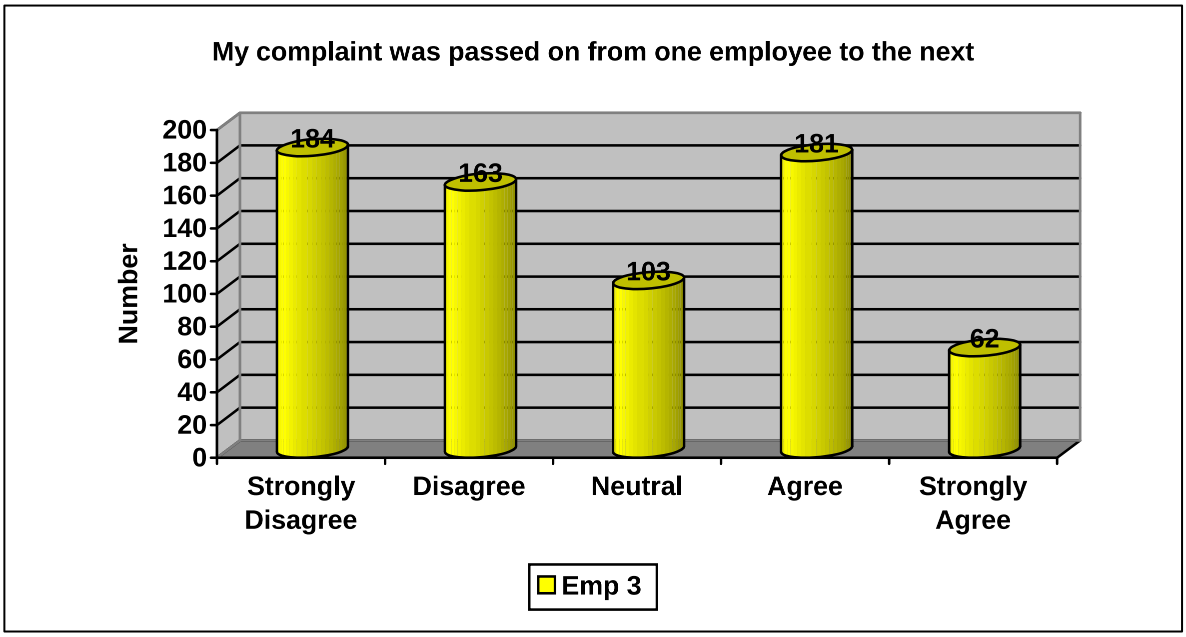

The Bank employees I dealt with were honest in their attempts to solve my problem
Number
350
300
250
200
150
100
50
0
28
74
75
313
208
Strongly Disagree
Disagree
Neutral
Agree
Strongly Agree
Com 5

ANNEXURE M1

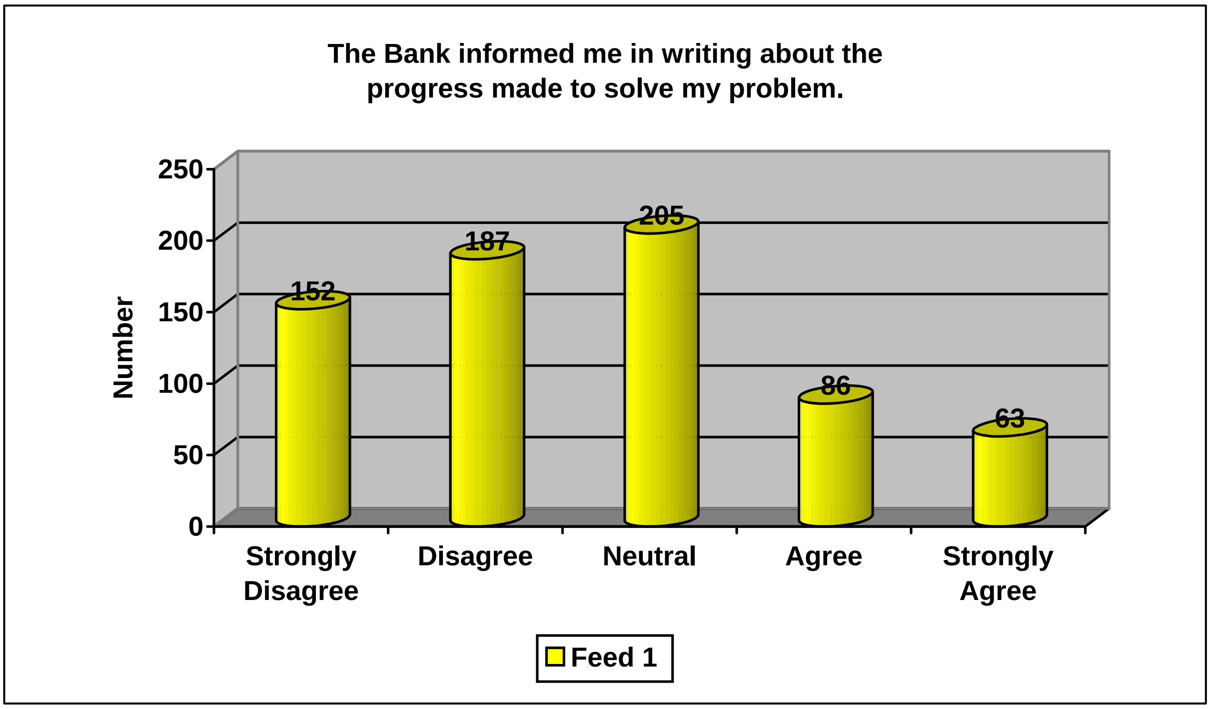


ANNEXURE M 2

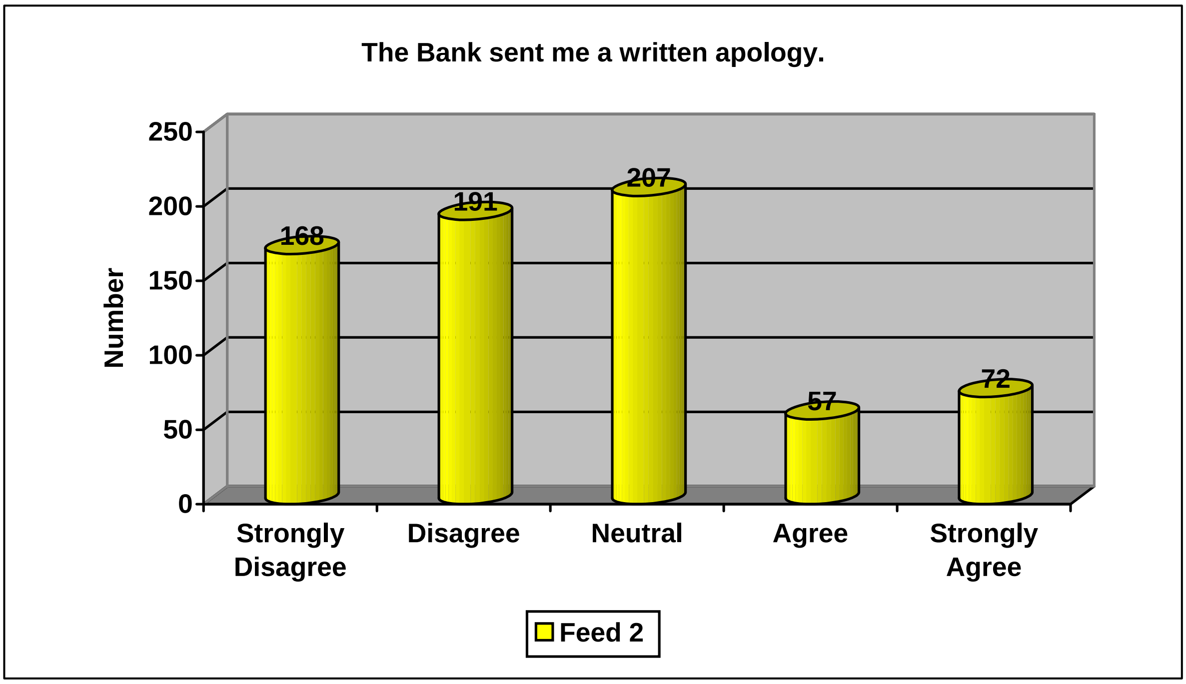



My complaint was passed on from one employee to the next
Number
200
180
160
140
120
100
80
60
40
20
0
184
163
103
181
62
Strongly Disagree
Disagree
Neutral
Agree
Strongly Agree
Emp 3

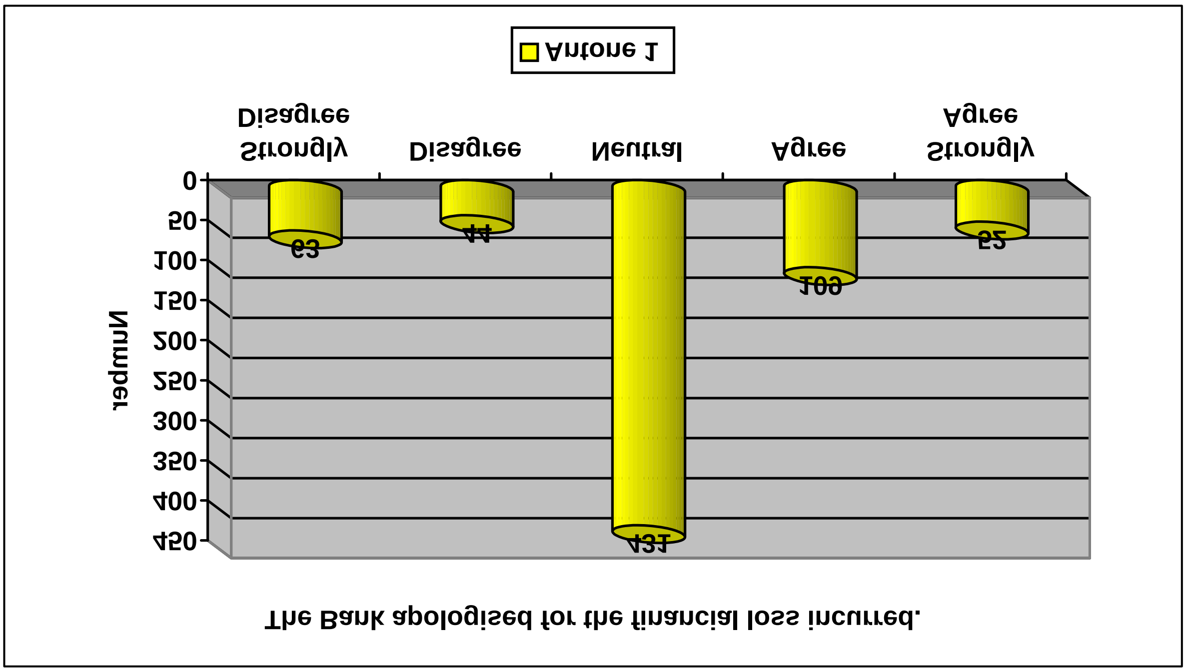
ANNEXURE N 1



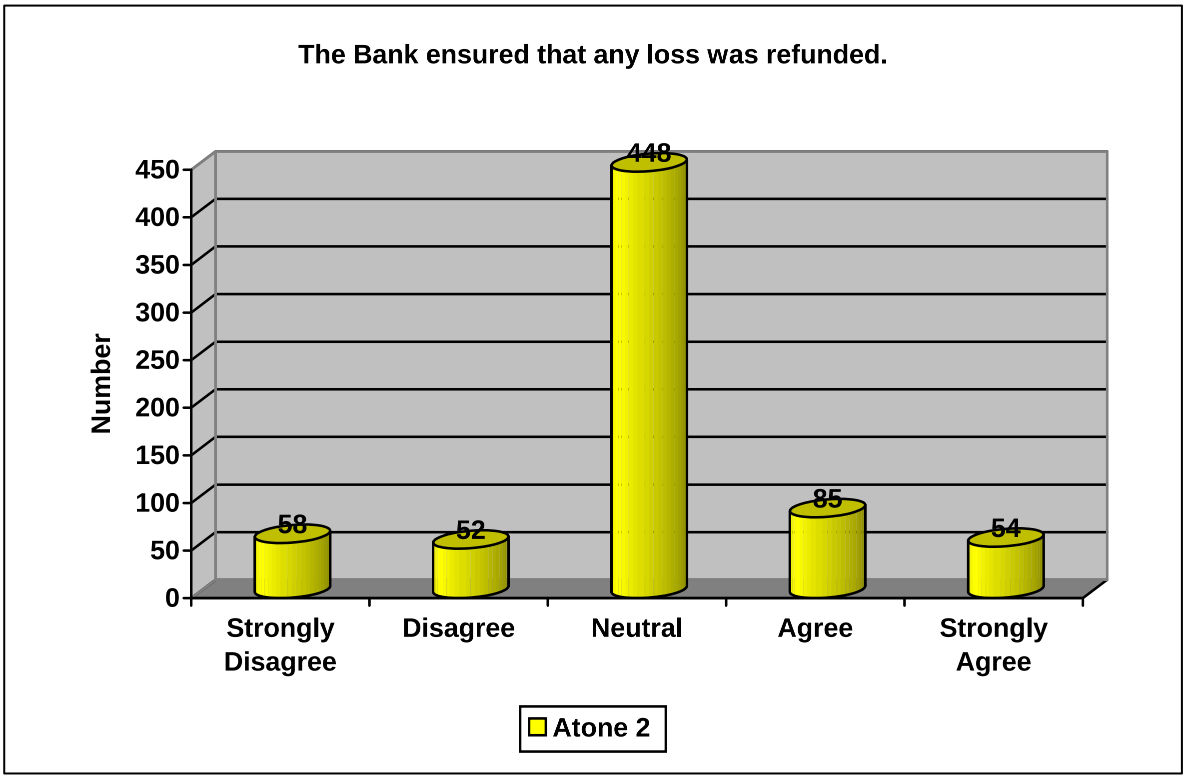
ANNEXURE N 2



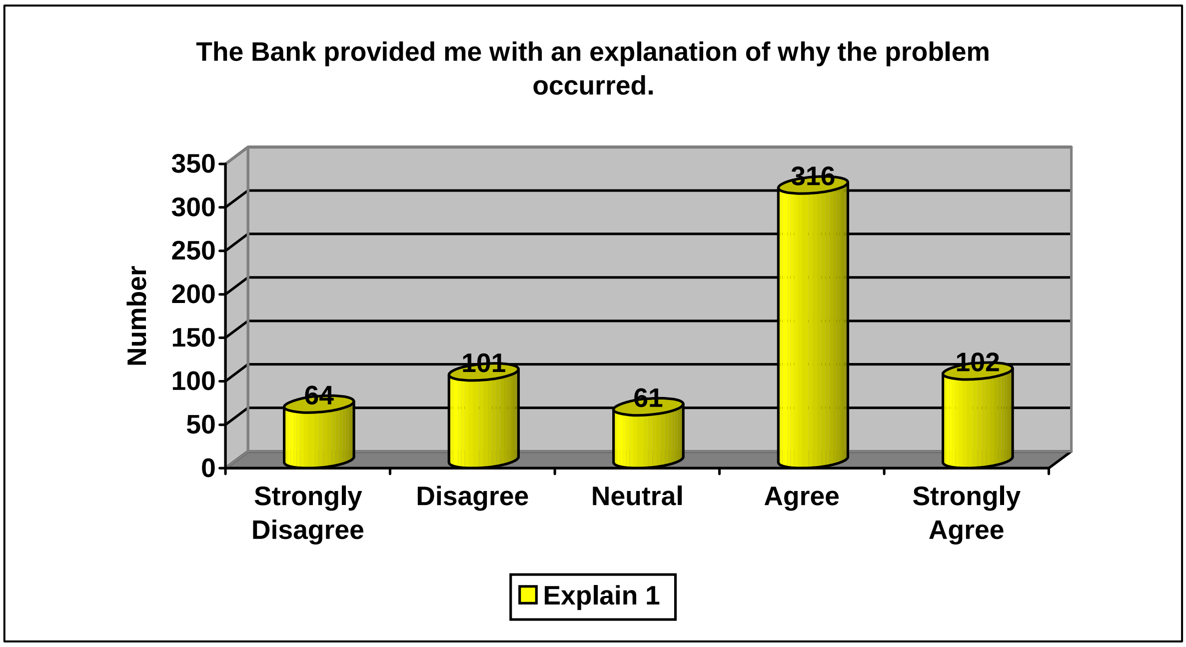
ANNEXURE 01



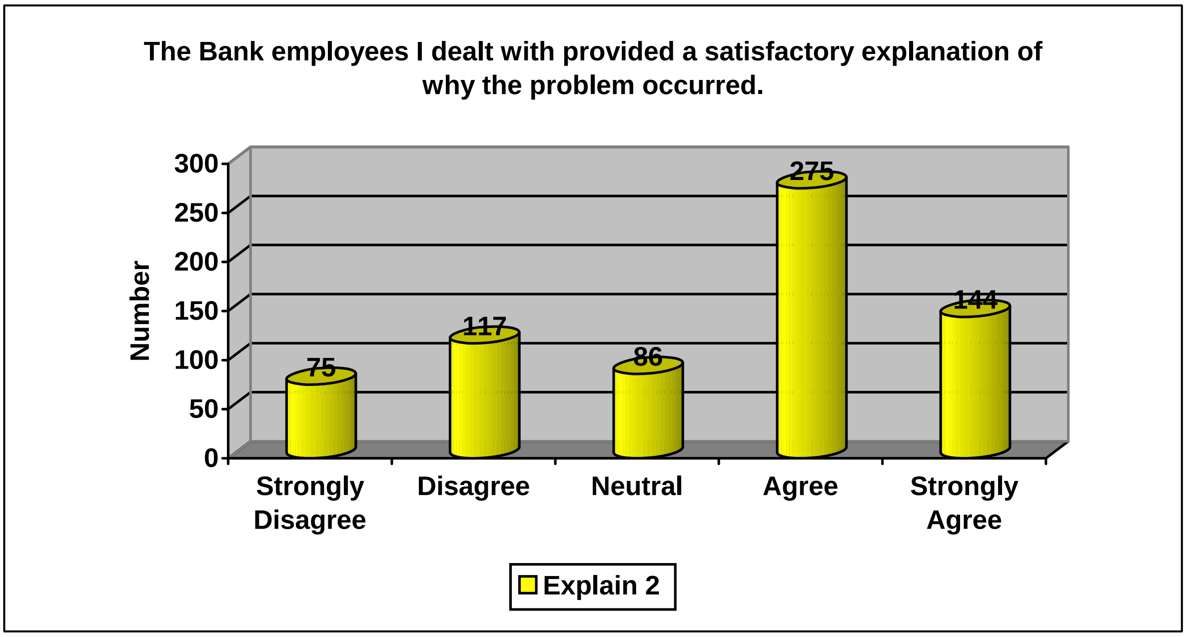
ANNEXURE 02



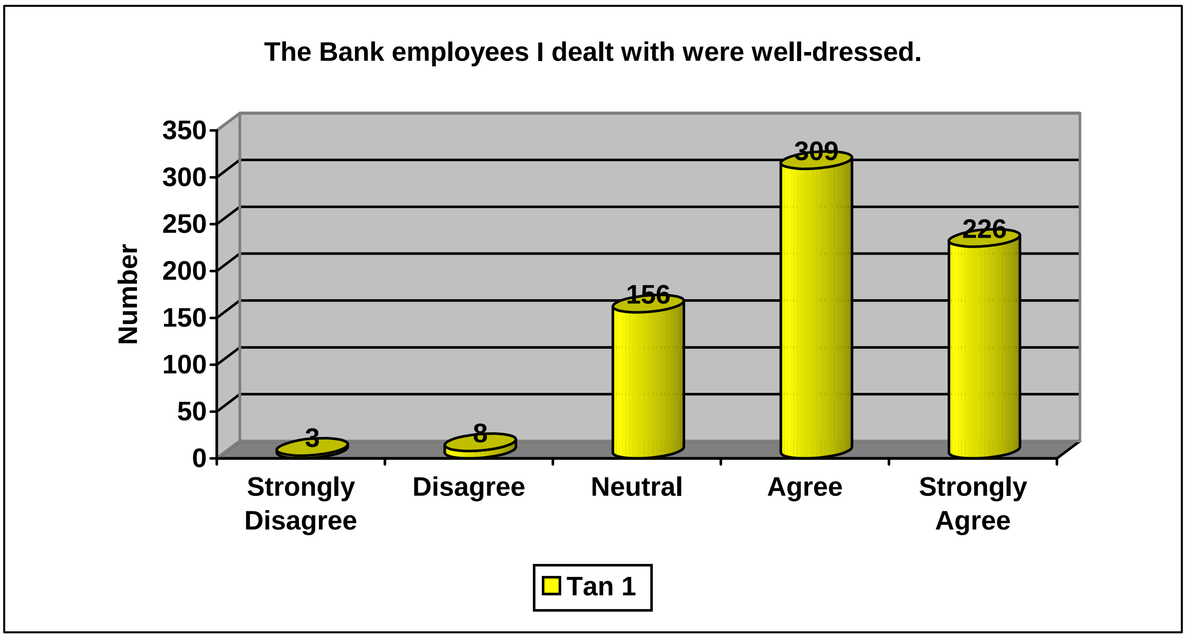
ANNEXURE P1



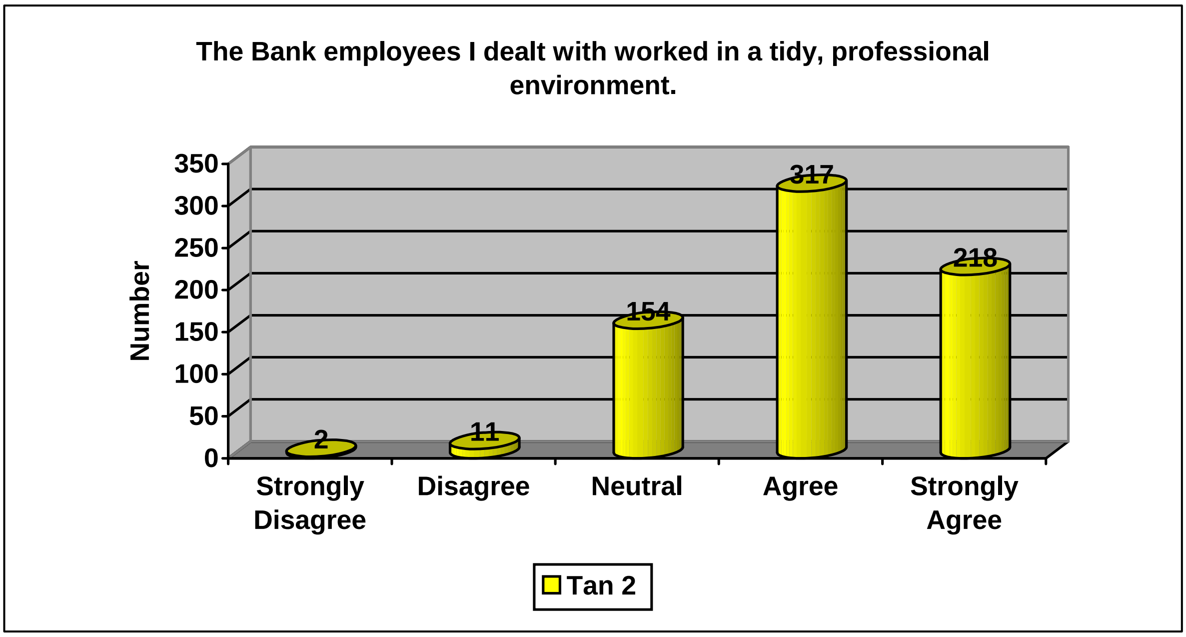
ANNEXURE P 2



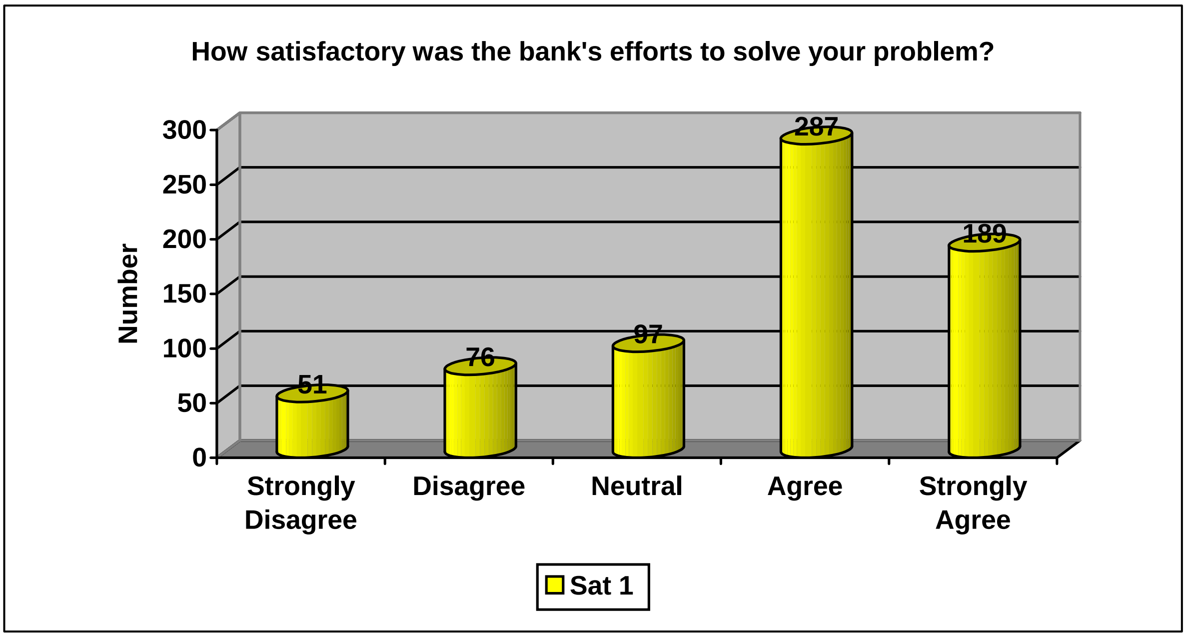
ANNEXURE Q 1



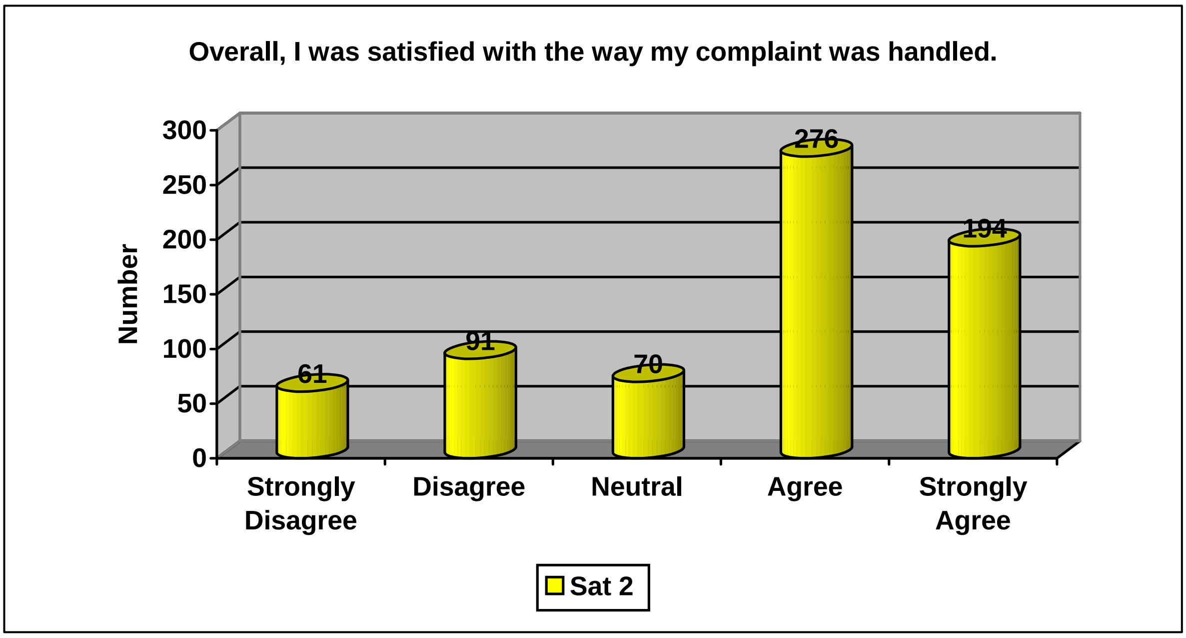
ANNEXURE Q 2



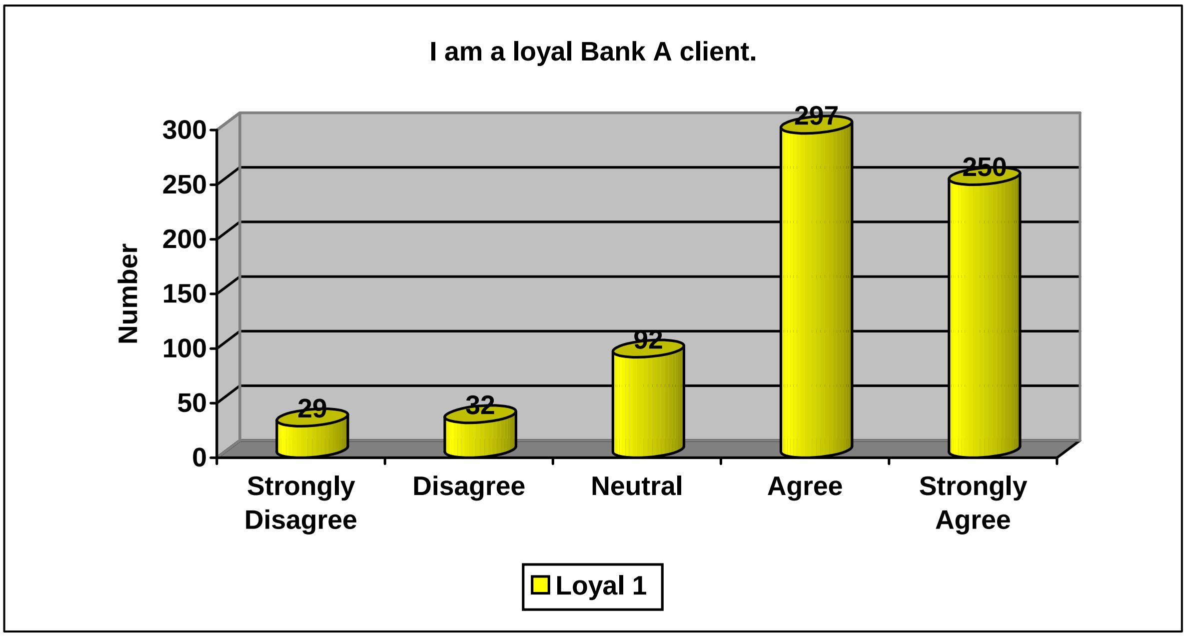
ANNEXURE R 1



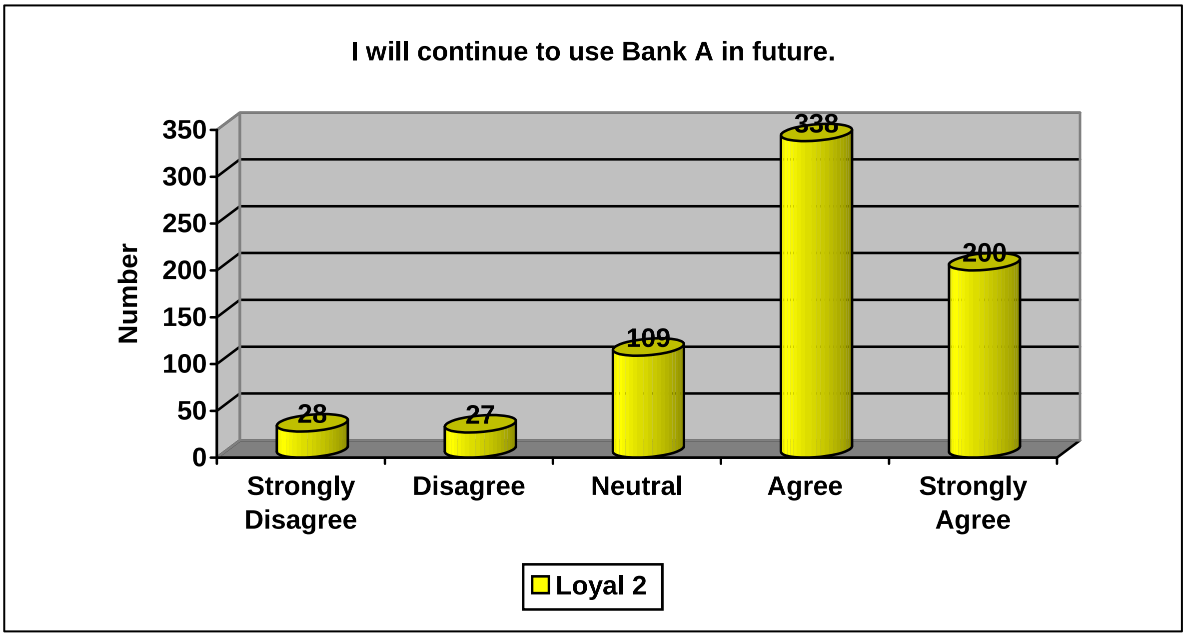
ANNEXURE R 2



ANNEXURE S 1



ANNEXURE S 2



ANNEXURE A

Quarterly DI-900 Analysis of Individual Banks – December 2002

Bank (In alphabetical order, starting with the "Big Five" domestic banks)	Capital & Reserves	Total Assets	Contingent Liabilities	Total Public Liabilities	Total Deposits	Acceptances	Repurchase agreements	Resale agreements	Fixed Assets	Investments	Advances/Loans						Selected ratios				
											Total	Instalment	Mortgage loans	Private sector	Foreign currency loans	Other	Retail / total deposits	Capital / asset + cont.liabs	Primary cap/ Total cap & res	Loans/ public liabs	Provs bad debt/ loans
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	%	%	%	%	%	%	%	%	%	%
ABSA Group #1	15 159	234 337	83 769	209 281	182 443	823	9 904	2 204	2 655	27 598	188 699	14,4	47,2	25,4	7,1	5,9	25,6	4,8	57,5	90,2	2,8
The Standard Bank Of S A	15 137	215 717	136 853	188 290	143 627	1	14 444	10 032	2 413	22 662	177 917	13,2	31,9	21,7	18,4	14,8	23,4	4,3	58,5	94,5	1,0
Nedcor Group (incl BoE) #2	26 573	273 566	47 120	222 521	202 062	1 037	9 732	5 443	4 365	38 467	198 737	10,1	30,7	33,4	6,7	11,0	51,5	16,5	153,2	181,0	4,6
First Rand Group #3	12 845	216 207	39 107	176 898	123 170	271	10 562	10 884	1 458	30 772	153 620	20,5	29,5	22,8	9,4	17,8	28,3	5,0	70,8	86,8	1,7
Investec Bank	9 567	63 964	5 513	50 824	47 783	-	-	-	759	5 987	50 372	3,2	19,3	43,5	18,4	15,6	6,4	13,8	56,2	99,1	0,4
A B N Amro Bank	318	5 179	6 127	4 833	4 832	-	-	16	29	230	4 707	-	-	17,2	81,6	1,2	-	2,8	100,0	97,4	6,4
African Bank	1 984	6 489	168	4 176	1 395	-	-	-	78	579	7 320	0,7	5,0	91,5	-	2,8	3,0	29,8	89,6	175,3	28,8
African Merchant Bank *	444	1 250	17	254	254	-	-	-	3	103	1 054	-	-	59,6	1,7	38,7	0,1	35,1	64,0	414,8	9,7
Albaraka Bank	56	643	17	587	552	-	-	-	5	41	542	23,9	55,0	21,1	-	-	99,6	8,4	90,2	92,3	2,7
Bank Of Baroda	63	149	69	86	16	-	-	-	-	-	108	2,3	0,5	31,1	66,0	0,1	-	28,9	99,3	125,4	-
Bank Of China	59	299	27	230	230	-	-	-	2	30	243	-	-	7,7	92,3	-	3,1	18,1	99,8	105,3	-
Bank Of Taiwan	86	1 223	426	1 105	1 074	-	-	-	-	5	1 161	-	-	23,4	76,6	-	6,0	5,2	96,6	105,1	0,2
Barclays Bank Plc	109	5 117	358	4 933	4 105	-	628	325	38	785	3 506	-	-	14,4	72,0	13,6	0,1	2,0	100,0	71,1	-
Capitec Bank	303	368	-	26	26	-		-	134	-	183	-	-	100,0	-	-	10,3	82,4	78,2	714,1	16,1
China Construction Bank	123	1 449	332	1 308	1 308	-	-	-	4	137	1 290	-	-	29,0	71,0	-	-	6,9	97,8	98,6	0,4
Citibank N.A.	1 102	23 155	1 640	21 033	21 753	-	79	3	281	1 498	19 239	16,1	-	29,4	54,3	0,2	-	4,4	96,1	88,1	0,3
Commerzbank	435	4 659	1 831	4 101	2 852	-	-	-	15	112	4 374	-	-	68,4	31,6	-	0,2	6,7	100,0	106,7	-
Corpcapital Bank	533	2 294	35	376	260	-	-	-	-	1 548	487	-	3,5	91,7	-	4,8	0,1	22,9	48,0	129,6	8,1
Credit Agricole Indosuez	311	12 988	582	12 602	12 595	-	-	305	5	602	9 790	-	-	8,9	81,7	9,4	-	2,3	60,0	77,7	-
Deutsche Bank AG	229	7 951	4	7 267	5 797	-	1 470	2 558	1	-	5 810	-	-	3,1	44,1	52,8	-	2,9	99,3	79,9	-
GBS Mutual Bank	30	295	26	254	254	-	-	-	1	24	232	32,1	63,6	4,3	-	0,0	66,4	9,3	94,4	91,4	0,7
Gensec Bank	1 416	12 678	70	8 175	6 861	-	1 166	2 949	15	3 278	6 797	2,8	-	43,0	-	54,2	-	11,1	83,6	83,2	0,1
Habib Overseas Bank	12	262	152	224	223	-	-	-	4	5	141	-	-	56,8	25,6	17,6	38,4	3,0	94,4	63,1	0,2
HBZ Bank	57	486	314	409	409	-	-	-	4	72	158	-	-	93,8	6,0	0,2	29,2	7,1	95,7	38,6	0,4
ING Barings *	220	3 086	695	2 866	2 835	-	-	-	1	126	2 492	-	-	22,6	74,4	3,0	-	5,8	100,0	86,9	-
International Bank of SA *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMorgan Chase Bank	443	4 618	42	3 644	1 728	-	1 663	2 045	8	892	3 669	-	-	10,7	33,6	55,7	-	9,5	99,9	100,7	-
Marriott Merchant Bank	129	525	117	387	387	-	-	51	2	29	398	1,9	37,6	32,9	-	27,6	11,1	20,1	96,7	103,0	1,3
Meeg Bank	65	729	129	647	639	-	-	-	14	29	592	12,9	58,7	24,2	-	4,2	44,3	7,6	64,1	91,6	8,3
Mercantile Lisbon Bank	231	2 225	1 886	1 923	1 842	-	-	-	99	57	1 039	7,7	16,6	56,9	4,9	13,9	61,2	5,6	97,7	95,6	18,6
Merrill Lynch *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	n/c	-
New Republic Bank *	301	1 433	83	1 111	1 111	-	-	-	8	29	1 357	20,3	20,4	54,8	-	4,5	7,2	19,9	86,9	122,1	6,1
PSG Investment Bank *	869	869	-	-	-	-	-	-	-	-	869	-	-	-	100,0	-	n/c	100,0	100,0	n/c	-

Quarterly DI-900 Analysis of Individual Banks – December 2002

Bank (In alphabetical order, starting with the "Big Five" domestic banks)	Capital & Reserves	Total Assets	Contingent Liabilities	Total Public Liabilities	Total Deposits	Acceptances	Repurchase agreements	Resale agreements	Fixed Assets	Investments	Advances/Loans: Total	Advances/Loans: Instalment	Advances/Loans: Mortgage loans	Advances/Loans: Private sector	Advances/Loans: Foreign currency loans	Advances/Loans: Other	Selected ratios: Retail / total deposits	Selected ratios: Capital / asset + cont.liabs	Selected ratios: Primary cap/ Total cap & res	Selected ratios: Loans/ public liabs	Selected ratios: Prov bad debt/ loans
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	%	%	%	%	%	%	%	%	%	%
RAD Investment Bank	505	1 634	1	771	491	-	65	-	-	165	1 056	1,8	-	71,2	10,4	8,6	-	30,9	69,3	136,9	4,3
Regal Treasury Private Bank*	450	1 522	21	1 096	1 093	-	-	-	33	21	957	1,1	3,9	44,6	0,4	50,0	99,6	29,2	98,4	87,4	0,5
Rennies Bank	107	257	27	68	26	-	-	-	13	16	103	0,6	3,4	22,3	73,6	0,1	33,1	37,7	99,1	150,5	0,5
Saambou Bank *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sasfin Bank	150	566	44	320	280	-	-	-	12	63	389	27,0	-	58,7	8,6	5,7	69,6	24,6	67,7	121,5	5,4
Securities Investment Bank	187	205	-	-	-	-	-	-	7	-	19	-	-	100,0	-	-	n/c	91,5	107,8	-	-
Societe Generale Jhb Branch	111	1 106	5 142	866	852	-	-	-	17	16	149	-	-	44,4	8,8	46,8	-	1,8	79,8	17,2	23,7
State Bank of India	68	534	250	435	435	-	-	-	1	50	454	0,3	-	19,2	77,2	3,3	0,4	8,6	100,0	104,3	0,8
TA Bank of SA*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Teba Bank	379	1 578	35	1 023	976	-	-	-	40	66	275	-	-	99,5	0,5	-	82,4	23,5	98,7	27,0	10,5
The SA Bank Of Athens	49	480	173	422	409	-	-	-	23	6	416	8,1	9,6	65,8	8,8	7,7	50,2	7,5	65,6	98,6	2,3
VBS Mutual Bank	14	178	4	164	158	-	-	-	2	-	101	-	78,2	14,4	-	7,4	91,9	7,7	70,0	61,7	5,8
Total	91 232	1 112 269	333 197	936 336	777 145	2 131	49 734	36 814	12 550	136 103	851 625	12,7	32,9	27,9	14,0	12,5	22,5	6,3	67,4	91,0	2,0

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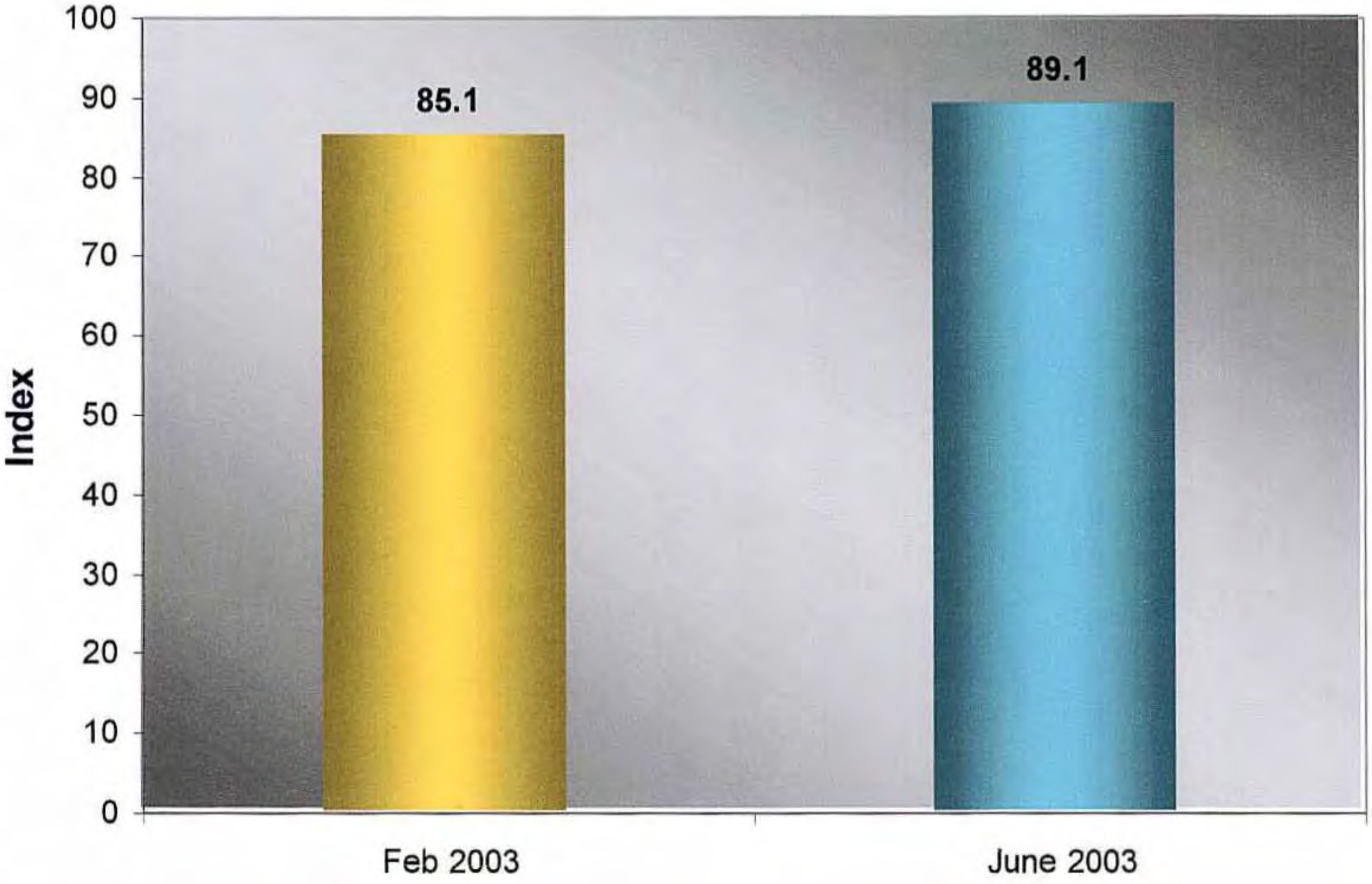
* - Given up banking license, taken over or left the market/become inactive

#1 - Includes ABSA Bank, M L S Bank and Unibank

#2 - Includes Nedcor Bank, NIB Securities, Cape of Good Hope Bank, Imperial Bank, FBC Fidelity and BoE Bank

#3 - Includes FirstRand Bank and Rand Merchant Bank

Overall Service experience: National comparison 2003(1) to 2003(2)



ANNEXURE E

First National Bank
A division of FirstRand Bank Limited
How can we help you?

Moment-of-Truth Score: National (Detail per statement)

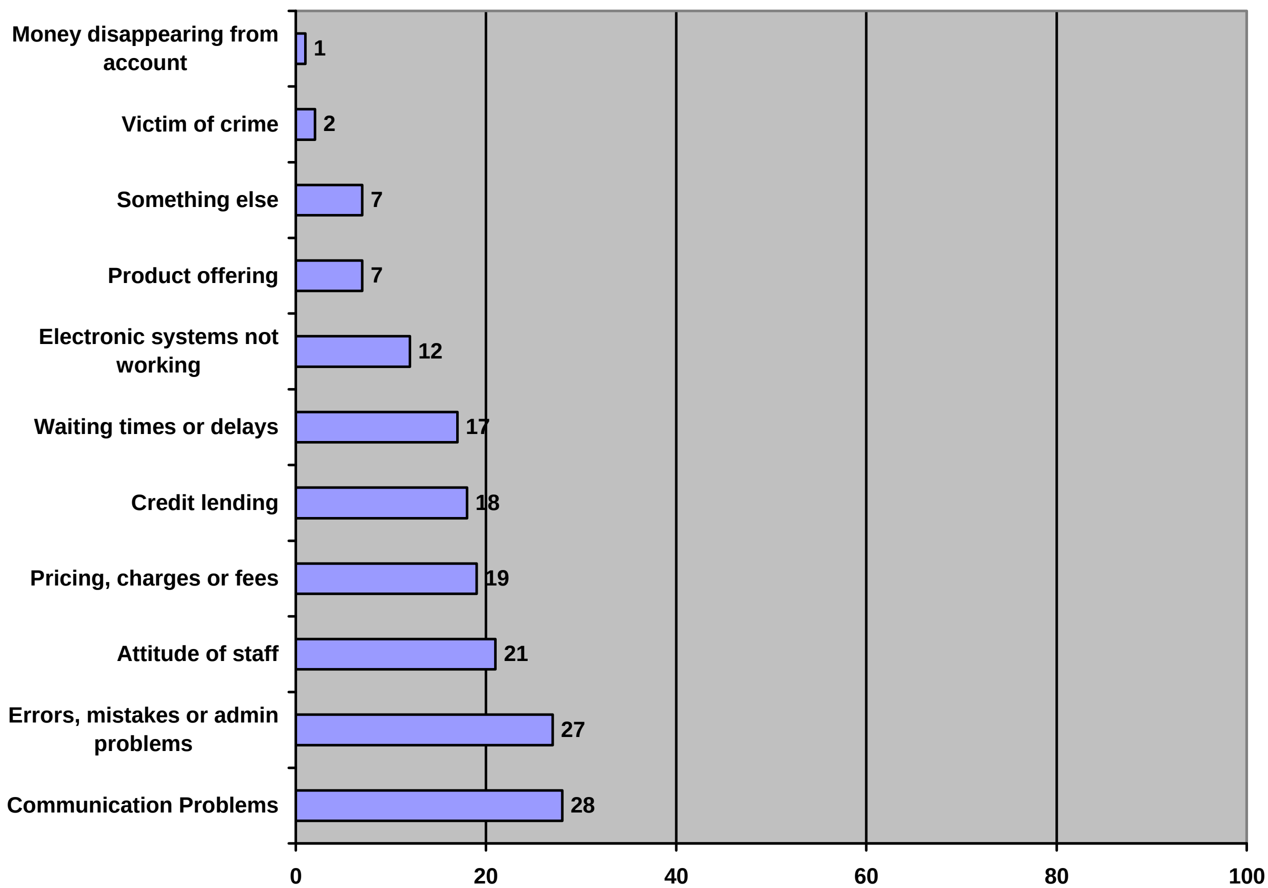
	Feb 2003	June 2003
Safe and Secure	81.9	90.8
Received me courteously	83.5	92.2
Products I need	82.8	92.0
Services I need	83.2	92.4
Pleasant appearance	85.6	93.6
Served me promptly	82.7	92.0
Provides good advice	82.6	92.1
Do things right the first time	83.5	92.2
Provides information I need	83.6	92.5
Treated me with respect	88.3	95.7
Moment-of-Truth Score	83.8	92.6

ANNEXURE F

CONSULTA

Annexure H

Main Reasons for Complaint



APPENDIX A

THE RECOVSAT© INSTRUMENT

Dear Sir

You have recently complained to First National Bank about some aspect of our service. We would like to know how satisfied you were with our attempts to solve your problem. Kindly indicate to what extent you agree or disagree with each of the following statements:

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Communication					
The FNB employees I dealt with communicated clearly when providing feedback about my complaint	1	2	3	4	5
When I complained about poor service the FNB employees asked questions to help clarify the situation	1	2	3	4	5
The FNB employees I dealt with were very understanding	1	2	3	4	5
The FNB employees I dealt with were reliable	1	2	3	4	5
The FNB employees I dealt with were honest in their attempts to solve my problem	1	2	3	4	5
Empowerment					
The employee I complained to first was able to solve my problem	1	2	3	4	5
The employees I complained to first had to find someone else to solve my problem (-)	1	2	3	4	5
My complaint was passed on from one employee to the next (-)	1	2	3	4	5
Feedback					
FNB informed me in writing about the progress made to solve my problem	1	2	3	4	5
FNB sent me a written apology	1	2	3	4	5
FNB's feedback was done in an acceptable time period	1	2	3	4	5

Atonement

FNB apologised for the financial loss incurred	1	2	3	4	5
FNB ensured that any loss was refunded	1	2	3	4	5
The FNB employees I dealt with were polite	1	2	3	4	5

Explanation

FNB provided me with an explanation of why the problem occurred	1	2	3	4	5
The FNB employees I dealt with provided a satisfactory explanation of why the problem occurred	1	2	3	4	5
FNB provided me with an explanation timeously	1	2	3	4	5

Tangibles

The FNB employees I dealt with were well-dressed	1	2	3	4	5
The FNB employees I dealt with worked in a tidy, professional environment	1	2	3	4	5
The documentation used by FNB was neat, understandable and well laid out	1	2	3	4	5

Loyalty

I am a loyal FNB client	1	2	3	4	5
I recommend FNB to others when I get the opportunity	1	2	3	4	5
I will continue to use FNB in the future	1	2	3	4	5
How satisfactory was FNB’s efforts to solve your problem?	1	2	3	4	5
Overall, I was satisfied with the way my complaint was handled.	1	2	3	4	5

INFORMATION SHEET

ZONE:

INLAND NORTH		INLAND SOUTH		CAPE		EAST COAST	

CATCHMENT: ……………………………………………………………………...

OUTLET : ……………………………………………………………………...

NATURE OF COMPLAINT : ……………………………………………………………………...

……………………………………………………………………...

AREA AT FAULT ……………………………………………………………………..
e.g. Outlet, Firstcard,
Home Loans etc ……………………………………………………………………..

How long have you been a client of FNB? …………………………………………………………………….

……………………………………………………………………

Age: 0-21
21-29
30-39
40-49
50-59
60plus …………….

Male: ☐ Female: ☐

INTERVIEWERS CONTACT DETAILS:

NAME: ……………………………………………..

TELEPHONE NUMBER: …………………………..

ANNEXURE K

Gareth Davies
Sales and Service Director
Port Elizabeth

Dear SSD

MBA THESIS – SERVICE RECOVERY IN FNB

I am writing to you to request your assistance in a project that I'm doing for my MBA thesis on service recovery in First National Bank. This project has the blessing of Zweli Manyathi and the four CEO's of the zones. I would appreciate it if your SSM's could complete these questionnaires over the next six months to end of February 2003.

As it is important that we get honest and accurate feedback, kindly request your SSM's to interview clients of another outlet in your catchment who have complained about any aspect of our service. The objective of this research is not to find fault with the service in any particular area but rather to get an assessment of our situation in the Bank and propose strategies to improve our service recovery.

In South Africa firms fall short of customer expectations and in trying to recover from service failure they apply inappropriate actions causing service failure for a second time. You will note that in FNB we fell short in service recovery during the recent CSI.

This study will use the RECOVSAT© instrument to measure First National Bank's clients satisfaction with service recovery. (Please note this questionnaire has copyright and cannot be distributed to third parties).

Research has shown that satisfaction with service recovery consists of six dimensions. It means that when clients complain they expect:

- the service firm to communicate with them effectively
- the person they complain to, to solve their problem (empowerment)
- to receive written feedback about the progress being made to solve the problem
- to receive an apology and ensure that they are not left "out of pocket"
- to receive an explanation of how and why the problem occurred
- employees that they interact with to be professionally dressed and to work in a professional environment

The question is does FNB meet these expectations when its clients complain?

To answer this question will be the objective of this research project.

I attach a schedule indicating how many questionnaires I would like completed by your catchment over the next six months, and would appreciate it if you would distribute them equally to the SSM's in your outlets and ask them to forward them on to me monthly once completed by the client who had a complaint. This questionnaire can either be posted to:

Gareth Davies
SSD Port Elizabeth
293 Cape Road
Port Elizabeth
6045

or fax for my attention at fax number 041 3908108

With regard to tracking who complained recently, I am sure most SSMs keep a record book of customer complaints. I believe Marie-Louise van Rooyen in Metro Service and Mike Nolan at Bankcity also have a database of customer complaints

If anybody has any questions or requires any further information, please contact me at 041 3908266 (business) or 0829265709 (cell).

I really appreciate your support.

Regards

Gareth

ZONE: CAPE

CATCHMENT	SSD	NO. OF OUTLETS	NO. OF QUESTIONNAIRES PER OUTLET PER MONTH SEP-FEB	OR TOTAL QUESTIONNAIRES PER CATCHMENT OVER 6 MONTHS
Cape Flats	Moira Patience	4	2.5	60
Central Industrial	Cheryl Haggett	7	1.7	70
City	Kevin Chaplin	7	2.4	100
South Peninsula	George New	8	2	100
Northern Peninsula	Bennett Mdebuka	6	2.2	80
Helderberg	Ian van Jaarsveld	4	2	50
Table Bay	Sharron Veldsman	6	1.7	60
Port Elizabeth	Gareth Davies	10	3	180

ZONE: EAST COAST

CATCHMENT	SSD	NO. OF OUTLETS	NO. OF QUESTIONNAIRES PER OUTLET PER MONTH SEP-FEB	OR TOTAL QUESTIONNAIRES PER CATCHMENT OVER 6 MONTHS
PMB	Ian Leyenaar	4	4	100
Suburban – Dbn	Tony Bester	8	2	100
Central	Linda Webb	11	1.5	100
Western	Jonathan Dunwoody	10	1.7	100
East London/Umtata	Dennis Crewe-Brown	5	3.3	100

ZONE INLAND NORTH

CATCHMENT	SSD	NO. OF OUTLETS	NO. OF QUESTIONNAIRES PER OUTLET PER MONTH SEP-FEB	OR TOTAL QUESTIONNAIRES PER CATCHMENT OVER 6 MONTHS
Sandton	Pat Anderson	6	2	70
Nelspruit	Anton Fourie	3	2.2	40
Pretoria West	Louise Klopper	3	2.2	40
Polokwane	Peter Marshall	3	2.2	40
North East	Gary Musk	7	1.9	80
Randburg	Fred Nel	7	1.9	80
Central JHB	Carol Spalding	8	1.7	80
Pretoria Central	Pieter Swart	5	1.7	50
Bedfordview/Kempton Park	Sue Stewart-Lord	8	1.7	80
Rustenburg	Neil Timms	3	2.2	40
Centurion	Diane Uys	6	2	70
Pretoria East	Wimpie van der Walt	7	1.9	80
Pretoria North	Jaco van Schalkwyk	7	1.9	80

ZONE: INLAND SOUTH

CATCHMENT	SSD	NO. OF OUTLETS	NO. OF QUESTIONNAIRES PER OUTLET PER MONTH SEP-FEB	OR TOTAL QUESTIONNAIRES PER CATCHMENT OVER 6 MONTHS
City – JHB	Donald Cole	12	1.4	100
Bloemfontein	Johann Oosthuysen	8	1.7	80
Central Ekurhuleni	Sean Stevens	11	1.5	100
Ekurhuleni East	Terence Tracey	9	1.5	80
South	Johann van Emmenes	9	1.5	80
Suburban – JHB	Patrick Mandlazi	12	1.3	90
Vaal	Franklin Allies	6	1.7	60