How to Build Satisfaction and Customer Loyalty with a Focus On Complaints Handling (Review of the Scientific Literature)

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ABSTRACT

Objectives – The purpose of this study is to examine and explain the effect of bank service quality and the handling of customer complaints on customer loyalty in public sector banks in Jakarta. This bank has been the subject of several complaints to the Indonesian Consumers Foundation and the Financial Services Authority.

Methodology/Technique – The variables in this study are: bank service quality 19 indicators, handling of customer complaints 4 indicators, 29 indicators of customer loyalty, and customer satisfaction 4 indicators.

Findings – The research displays the proposed conceptual model, namely the main determining features of customer loyalty.

Novelty – The study developed framework for future research.

Type of Paper: Review

Keywords: Bank Service Quality; Handling of Customer Complaints; Customer Satisfaction; Customer Loyalty; Public Sector Banks; Indonesia.

JEL Classification: D11, D21, G21.

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1. Introduction

In January 2017, there were 166 commercial banks in Indonesia. Indonesia is number 16 in the world for GDP, and is the only ASEAN country that has entered the G20. The amount of money in Jakarta, Indonesia has now reached 80%. There is increasingly intense competition among banks in Indonesia and as such, customer loyalty is very important. The banking industry is changing rapidly. Government regulations, technology and sophistication of banking services are forcing customers to evaluate their business practices. Financial institutions around the world are re-examining how they meet the needs of current customers and are developing business plans to align themselves strategically and remain competitive. Based on data from the Indonesian Consumers Foundation (YLKI), complaints against the customer service standards of banks heightened in 2015. Complaints of banking services amount to approximately 17.09% of the total complaints. The number of complaints has become a topic of interest to academics and researchers (Kompas, 2016).

THE Financial Services Authority (OJK), which act ED as a banking supervisor from 2013-2016, has received as many as 802,746 complaints (53% of total complaints received). A total of 76 cases have not been completed (Kompas, 2016). The object of this study is to examine Bank Mandiri which received 22 complaints of grievances to the YLKI in 2015.

For banks, customer loyalty is very important. In order to survive competitively, many banks invest in improving their existing resources in order to maintain and increase customer loyalty. They also seek to obtain feedback on how to maintain and increase customer loyalty. For banks in Indonesia, customer loyalty will increase the growth of funds as a result of customer deposits, savings deposits, time deposits, and other deposits, as well as loans and other services. The concept of customer loyalty has increasingly gained the attention of researchers and practitioners over the last three decades (Roig et al., 2009).

The purpose of this research is to develop a model for sustainably increasing customer loyalty by improving the handling of customer complaints, bank service quality, and customer satisfaction as follows: (1) test and explain the influence of service quality on customer loyalty (2) test and explain the influence of customer satisfaction in mediating the service quality on customer loyalty (3) test and explain the influence of the handling of customer complaints on customer loyalty (4) test and explain the influence of customer satisfaction in mediating the handling of customer complaints on customer loyalty.

2. Literature Review

Lovelock and Wirtz (2009) state that loyalty is used to indicate when a customer wishes to continue to use the product in the long term and provide recommendations to business partners and perkumpulannya. Rust and Zahornik (1993) found that there are more difficulties involved with attracting new customers as opposed to retaining existing customers. According Matzler and Stahl (2000), customer retention is important in securing income, and usually results from reducing the cost of the transactions conducted by the customer. Swastha and Handoko (2000) mention five factors that influence customer loyalty: the quality of the product, the quality of their services, emotion, pricing, and fees. The indicators of customer loyalty are the instance of repeat purchases (loyalty in purchasing the product), retention (resistance to the negative influence on the company), and referals (referencing the total existence of the company). Banks must therefore manage complaints from customers to achieve customer satisfaction and minimize retention.

Manrai and Manrai (2007) show that dissatisfaction is one reason why customers switch to another bank. When customers feel the bank did not properly address their complaints, they filed a complaint with the regulatory body of the bank. This is a complaint to a third party according to the classification Singh (1988). If the company's response is satisfactory to the customer, the customer may be loyal. In contrast, ineffective responses disappoint customers and encourage them to leave the company (Hulten, 2012). Baker et al. (2013) found that customers experiencing negative emotions with their service usually do not respond verbally and tend to make a complaint to a third party. With increasingly saturated market conditions, achievement of targets is highly dependent on a thorough analysis of motivation, satisfaction, and loyalty (Yoon & Uysal, 2005). Trust and customer satisfaction affects customer loyalty (Akbar & Parvez, 2009).

The marketing concept states that the achievement of organizational goals depends on understanding the needs and wants of target markets and delivering the desired results better than other competitors (Kotler & Armstrong, 2014). Customer satisfaction depends on the perceived product performance relative to the expectations of the buyer. Satisfaction is a function of perception and impression of the customer's performance and expectations. If performance is below expectation, the customer will not be satisfied. If performance meets expectations, the customer will be satisfied. If performance exceeds customer expectations the customer will be pleased (Kotler & Armstrong, 2014). Measurement of customer satisfaction and customer competitors can be done by several methods. Kotler, et al. (2004) identifies four methods to measure customer satisfaction: (1) the system of complaints and suggestions (2) posing as a customer (ghost shopping), (3) ceasing to be a customer (lost customer analysis), and (4) customer satisfaction surveys. Based on the concept of the zone of indifference adopted from Everelles and Leavitt (1992), Santos and Boote (2003) identify four

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types of emotions occurring after purchase, namely: (1) fun (delight), (2) satisfaction (indifferent positive), (3) reception (indifference negative), and (4) dissatisfaction.

Behavior leading to complaints being made may occur when the perceived performance of a good or service which falls between the minimum expectation that is tolerated (tolerable expectation) and the worst imaginable expectations (worst imaginable expectation). Complaint behavior may also occur if the perceived performance is located between an adequate level of expectation (adequate expectation) and the minimum expectation is tolerated (tolerable minimum expectation). With an increase in negative disconfirmation, the complaints grow in intensity.

Quality of service can be determined by comparing the perceptions of consumers to the actual services they received. If the services received are perceived as expected, then the perceived service quality is high. If the services received exceed expectations, the perceived service quality is very high (Parasuraman, et al., 1985). Conversely, if the services received are lower than expected, then the perceived quality of services is low. Bahoosh, et al. (2004) identifies the main priorities that affect customer satisfaction of banks in Tehran. Quality is a multi-dimensional concept, which includes five main dimensions, namely: (1) reliability, (2) responsiveness, (3) assurance, (4) empathy, and (5) tangibles (Parasuraman et al., 1988). Special services for the banking industry are known as the Bank Service Quality (BSQ). Bahia and Nantel (2000) developed BSQ (Effectiveness and Assurance, Access, Price, Tangible, Service Portfolio, Reliability) for Servqual concepts and the concepts of quality of service measurement. This has been highly criticized for its particular drawbacks. In establishing the quality of service for the banking services, Bahia and Nantel (2000) use the framework of the marketing mix 7P's, as developed by Booms and Bitner, 1981.

In previous studies, the variable levels of service quality are viewed as the basis for determining the level of customer satisfaction and the impact on customer loyalty. However the research results vary. The first research groups found that service quality directly affects customer loyalty (Hyun, 2010; Carrillat et al., 2009; Ravichandran, 2010; Pollack, 2009; Ziaul Hoq, 2009). However, two groups of researchers found that the quality of service has no effect on customer loyalty (Bastos, 2008; Dalrymple, 2009). Another group of researchers found that service quality does not significantly affect customer satisfaction or customer loyalty (Sahadev & Keyoor 2008; Stum & Thierry, 1991; Reichheld, 1993). In light of this, the present study aims to prove that service quality does effect customer satisfaction. Furthermore, customer satisfaction will mediate the effect of bank service quality on customer loyalty.

3. Research Hypothesis

3.1 Relationship between the quality of bank services and customer loyalty

Santouridis and Trivellas (2010) show that customer service and price structures including billing system constitute one dimension of service quality that has a significant positive effect on customer satisfaction, which in turn has a significant positive impact on customer loyalty. Ganguli and Roy (2011) found that customer service and ease of use of the bank's technology and its reliability has a significant positive impact on customer satisfaction and customer loyalty. The first hypothesis is therefore:

H_1 Higher quality of service will result in higher customer loyalty.

3.2 Customer satisfaction in mediating the relationship of service quality banks and customer loyalty.

Kaura et al. (2015) reveals that quality of service, price, and convenience justice services have a positive impact on customer satisfaction and customer loyalty. Customer satisfaction was found to act as a mediating variable and is antecedent to customer loyalty. Santouridis and Trivellas (2010) show that customer service and price structures including billing systems have a significant positive effect on customer satisfaction, which in turn has a significant positive impact on customer loyalty.

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The mediating role of customer satisfaction on service quality and customer loyalty is also confirmed. Ganguli and Roy (2011) found that customer service and ease of use of the technology and its reliability has a significant and positive impact on customer satisfaction and customer loyalty. Furthermore, the convenience of technology and customer satisfaction have a significant positive impact on customer loyalty. Therefore, the second hypothesis is:

H_2 Higher customer satisfaction in mediating bank service quality will result in higher customer loyalty.

3.3 Customer complaint handling and customer loyalty

The banking industry should appropriately manage complaints from customers to achieve customer satisfaction and minimize retention. When customers feel that a bank has not properly addressed their complaints, they are more likely to file a complaint with the regulatory body (Singh, 1988).

H_3 Better handling of customer complaints will result in higher customer loyalty.

3.4 Customer satisfaction in mediating the handling of customer complaints and customer loyalty

Customer complaints are "expressions of dissatisfaction on behalf of consumers to the responsible parties" (Landon, 1977). Complaint management is essential for a successful business because it has an affect the company's relationship with all of its' customers. The results show the level of the company's customer orientation (Chebat, Davidow & Borges, 2011; Estelami, 2003). If the company's response is satisfactory to the customer, the customer may remain loyal. In contrast, ineffective responses tend to disappoint customers and encourage them to leave the company (Hulten, 2012). Manrai and Manrai (2007) show that dissatisfaction is one of the leadings reason why customers switch to another bank.

H_4 Higher customer satisfaction in mediating the handling of customer complaints will result in higher customer loyalty.

4. Conclusion

Based on findings of previous studies, descriptions of phenomena, and theories that have been described, the central objective of this research is to demonstrate the structural relationship between the variables as shown in Figure 1. The research displays the proposed conceptual model, namely the main determining features of customer loyalty. The bank's Service Quality and Complaints Handling is used as an independent variable. Endogenous variables include Customer Satisfaction and Customer Loyalty.
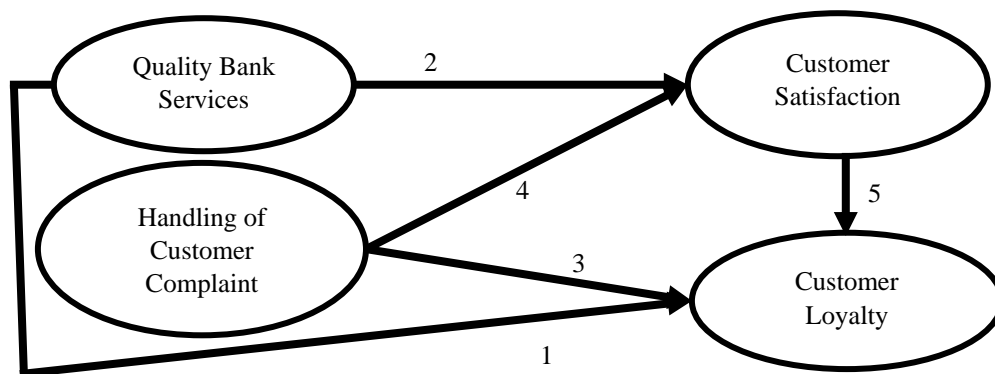

Figure 1. Framework Concepts

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From the conceptual framework to obtain the following hypothesis:

H_1 Higher quality of service results in higher customer loyalty.

H_2 Higher customer satisfaction in mediating results in higher customer loyalty.

H_3 Better handling of customer complaints will result in higher customer loyalty.

H_4 HIgher customer satisfaction in mediating the handling of customer complaints will result in higher customer loyalty.

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