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EFFECTS OF DISTRIBUTIVE JUSTICE COMPLAINTS RESOLUTION STRATEGIES ON CUSTOMER SATISFACTION IN KENYA'S BANKING INDUSTRY

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ABSTRACT

Maintaining a loyal customer base has witnessed banks invest in various marketing strategies among them complaint resolution strategies so as to have an ever satisfied clientele. The purpose of this study is to establish the effect of customer complaint resolution strategies on customer satisfaction. The study utilizes an explanatory survey design and focuses on all the 20 banks based in Eldoret, Kenya as at June 2010. Additionally, 2300 customers are targeted for the study. A sample of 372 customers was selected using systematic sampling techniques. A self-administered questionnaire was used to collect primary data and both descriptive and inferential statistics were used for data analysis. The study reveals two dimensions of complaint resolution strategies; Equity and Need and explained 57% of the total variance hence distributive justice theory on complaint resolution is valid in Kenya. Results of the Hypothesis testing indicated that distributive complaint resolution strategies are significant ($p<0.05$) and accounts for 17% of customer satisfaction. The study concludes that distributive complaints resolution strategies are an important feedback mechanism to establish customer satisfaction levels and banks are advised to invest in them.

Keywords: *Distributive justice, complaints resolution, customer satisfaction, banks, Kenya*

INTRODUCTION

Customer satisfaction is a much sought after phenomenon in today's highly competitive and globalized market place. Today's consumers seek more than price bargains and want useful purchasing information, high quality, reliable and safe products, dependable servicing and fair sales practices. A company's failure to fulfill these expectations can breed dissatisfaction and antipathy, unless that business helps resolve resulting consumer complaints fairly and promptly. Satisfied customers are less sensitive, buy additional products, are less influenced by competitors and stay loyal longer (Zineldin, 2000). Bejou et.al, (1998) propose that customer satisfaction can be enhanced through relationships provided they are developed and managed to customers' satisfaction. Companies are adopting market-driven strategies guided by the logic that all business strategy decisions should start with a clear understanding of markets, customers, and competitors.

Customer satisfaction is important for most marketers and consumer researchers (Dabholkar et.al., 1996; Meuter et al., 2000). However, despite the importance of customer satisfaction in the performance of the organizations, there exist evidence that all is not well in Kenya's banking industry. The economic growth momentum that started in 2003 was restrained by a number of both internal and external factors. These factors included the global financial crisis, the high fuel and food prices among others. Combined, these factors slowed the economic growth from 7.1 percent to 1.7 percent in 2008 (Economic Survey, 2009). In response, many retail banks are directing their marketing strategies towards increasing customer satisfaction and loyalty through enhanced customer service. Complaint resolution strategies refer to strategies firms use to resolve and learn from service failures in order to establish the organization's reliability in the eyes of the customer. According to Cravens & Piercy (2003), a company can be market-oriented only if it completely understands its markets and the people, and that complaint resolution strategies are important particularly in managing customer relationships in service business. The study sought to establish the effect of distributive justice complaints resolution strategies on customer satisfaction amongst bank customers. This study hypothesizes that there exists no significant effect of organizational distributive justice on the level of customer satisfaction.

Kano's customer satisfaction model is used which is a two-dimensional model of the relationship between performance (expressed as performance measures) on one hand, and value (expressed as customer satisfaction) on the other to be used as a tool to establish the relationship between what an organization does and how this is perceived by the customer (Kano et al., 1984). Nyer (2000) investigates the relation between consumer complaints and satisfaction; and establishes that encouraging consumers to complain increased their satisfaction. Johnstone (2001) claims that complaints management does not only results in customer satisfaction, but also leads to operational improvement and improved financial performance. Athanassopoulos (2000) indicates that product innovations, staff service, price, convenience and business profile are all determinants of customer satisfaction. Satisfaction increases customer retention, and customer retention depends on the substance of the relationship between parties (Eriksson & Vaghult, 2000).

RESEARCH METHODOLOGY

The study adopted an explanatory survey design to assess respondents' perceptions of complaint resolution strategies on most recent service-related complaint. The study was undertaken in Eldoret town, Rift Valley Province of Kenya. The town's economic growth is evidenced by a growing banking and insurance sector. The town has 20 banks with an estimated population of 500,000 (Korir, 2008). The study targeted two population groups; firstly, the registered, licensed and operating banks in Eldoret as at June, 2010 (Kenya Bankers Association records, 2010; Central Bank of Kenya records, 2010). Secondly, the study focuses on the employees of Moi University, Eldoret as consumers of bank services and May 2010 payroll acted as the sampling frame where 3,343 employees were captured. Out of this, a population of 2302 employees were customers of targeted banks. The study utilized various sampling techniques such as census method was conducted on the banks in Eldoret. Non-probability purposive sampling was used in the selection of respondents where bank branch managers participated in the study as respondents. In the sampling for customers, Israel (2000) provides a formula for calculating the customers sample size:

$$n = \frac{N}{1 + N(e)^2} = \frac{2302}{1 + 2302(0.05^2)} = 341$$

Table 1: Bank customers sample size determination

Name of bank	Target population	Proportionate sample size
National Bank	810	119
Transnational Bank	11	11
Family Bank	32	5
Cooperative Bank	194	29
KCB Bank	182	30
BBK	330	49
Fina Bank	3	3
Guardian Bank	9	9
CBA Bank	1	1
Equity Bank	287	43
Post Bank	6	6
HFCK	33	5
Standard Bank	121	18
ABC Bank	3	3
K.REP Bank	280	41
Total	**2302**	**372**

Source: Research data (2010)

Systematic sampling was further employed which allowed every K^{th} element in the population to be sampled, beginning with a random start of the element in the range of 1 to K. However systematic sampling was only used in banks with customer bases of more than 30. Where the banks' customer base was less than 30, a census was taken thus resulting to an adjusted sample size of 372. The study utilized the use of both primary and secondary data. Primary data was collected from selected bank managers and bank customers. Secondary data was obtained through review of published and unpublished materials such as journals, theses and government documents in libraries and internet. Two sets of questionnaires were used to collect the data; bank managers' and customers' questionnaire.

The questionnaire contained both structured and unstructured questions. Data was analyzed by both descriptive and inferential statistics. The employment of descriptive statistics allowed for the reduction and summary of data as well as analysis of items or variables so as to provide greater insight as to the characteristics of sample. Descriptive analysis was utilized as a basis for inferential statistical analysis such as Analysis of Variance (ANOVA), explanatory factor analysis, correlation analysis and multiple regression analysis. Furthermore, Chi-square (χ^2) test of independence was performed to test relationship between categorical variables, where the (χ^2) statistics, degrees of freedom (*df*) and significant values (*p-values*) were used to interpret the results.

Factor analysis was deemed appropriate for the study in that it allows for the confirmation of validity of the factors of the various complaint resolution strategies. Factor analysis was also used to reduce data (factor items) which were subsequently used as constructs of the independent variables. The results of the orthogonal Varimax rotation with Keiser Normalization method generated by factor analysis were used as a basis for interpreting factors accordingly. For each factor component extracted, items with a loading of >0.5 were picked and combined to form a factor component as they were deemed to be conceptually valid (Tabachnic & Fidel, 2007). Correlation analysis was performed to determine the relations amongst the independent variables as a prerequisite for multiple regressions. Multiple regression analysis was utilized to test the relationship between customer satisfaction (dependent variable) and complaint resolution strategies (independent variables).

$Y = \alpha_1 + a_1x_1 + a_2x_2 + e_1$

Where: Y is customer satisfaction

x_1, x_2, are the factors of Equity and Need respectively (Distributive strategy factors)

α_1 is the amount of y not associated with the independent variables

a_1, a_2, represents increase/decrease in the dependent variable (y) associated with a unit increase in independent variables x_1x_2, respectively.

e_1 is the Error Term for the model.

DATA ANALYSIS

The respondents targeted for the study were 392 consisting of 20 bank managers and 372 bank customers. 340 questionnaires were filled translating to a response rate of 86.7%. All indicators of distributive justice were found to be significant ($p<0.05$) amongst bank customers. Amongst bank manager's three indicators: Bank treats all customers equally ($\chi^2 = 4.85$, *df*= 3 *p*= 0.183), Bank understands the needs of complaining customers ($\chi^2 = 2.71$, *df*=2 *p*= 0.257), and Bank regularly visits its customers ($\chi^2 = 2.71$, *df*= 2 *p*= 0.257), were found to be significant ($p<0.05$) as summarized in Appendix I. In measuring customer satisfaction three indicators of happiness, contentment and delightment were used. As depicted in Appendix II, all the indicators of customer satisfaction were significant ($p<0.05$) amongst the bank customers while insignificant ($p>0.05$) amongst bank managers.

Factor analysis on distributive strategies

Six items measured distributive justice on a 5-point Likert scale type questions (see Appendix IV). Composite reliability analysis on the 6 items showed an internal consistency result that was above the threshold of 0.5 ($\alpha = 0.632$). Factor analysis using principal component, Varimax rotation method with Kaiser Normalization performed, reduced the data and provided structures within the variables. The Kaiser-Meyer-Olkin of sampling adequacy was above the threshold of 0.5 (KMO= 0.656). This indicates that the sample size was adequate for the variables entered into analysis. The Berlet's Test of Sphericity was statistically significant ($\chi 2$= 340.6, *df*= 15, *p*= 0.00) suggesting that factor analysis using principal component was relevant for the data set.

Rotations converged in three iterations and two components with Eigen values greater than unity extracted accounted for 57.122 of the variance (See Appendix III). This is above the threshold of 50% and indicates that the two-component factor model derived fits the data appropriately. Items loading greater than 0.5 for each component combined to form two factors namely, Equity (x_1) and Need (x_2) as depicted in the rotated component matrix for distributive justice factors (Appendix IV).

As a prerequisite for regression analysis correlation analysis was used to establish the degree of independence of complaint resolution factors. With the guideline that if Pearson's correlation coefficient *r* value was ≤ 0.40 at 0.05 level of significance, then the association between variables would be deemed low hence in order to perform multiple regression analysis. From the results of correlation analysis it can be concluded that multiple regression analysis (MRA) was tenable and suitable to test the hypotheses of the study. This is in view of the fact that the VIF threshold of 10 was observed. Moreover**,** Durbin-Wattson statistics were all below the threshold of 2.00 and above 1.30 thus indicative of non-existence of collinearity. In order to test the relationship of variables under study, the following Null hypothesis was formulated; H01: There exists no significant effect of organizational distribution justice on the level of customer satisfaction.

$$Y = \alpha_1 + a_1X_1 + a_2X_2 + \varepsilon$$

From the results of regression of distribution justice as depicted in Appendix V and VI, Equity (X_1) and Need (X_2), have an R=0.421 which indicates that distribution justice factors have a positive effect on customer satisfaction. The model further indicates that the factors of equity and need explained 17.7% of change in customer's satisfaction as depicted by the R^2 (Coefficient of determination). These results are significant as explained by the F-ratio of 36.323 at a P value = 0.000. If the coefficient of the independent variables are not all zero then the F-ratio should be significantly larger than 1.0 which in our case F – ratio = 36.323 with a P –value = 0.000 hence the independent variables had a significant effect on the dependent variable.

The t-satisfaction depicts the factors of equity being 7.044 and that of Need being 3.315 significant at p-value = 0.000 and 0.001 respectively hence these two factors had a significant effect on customer satisfaction (Y). Specifically, if Equity (X_1) changes by 1 unit then customer satisfaction (Y) level will change by 0.355 units. On the other hand if Need changes by 1 unit, then customer satisfaction will change by 0.167 units. Hence, the regression model of distributive justice strategies can be stated as follows:

$$Y=0.890 + 0.355X_1 + 0.167X_2 + 0.83127.$$

FINDINGS

The key results in relation to the specific objective and hypothesis test of the study that there is no significant effect of distributive justice strategies on customer satisfaction indicated that distributive justice factors were all significant ($p<0.05$) amongst bank customers and that factors like equal treatment of customers, understanding the needs of customers and visiting customers were not significant according to bank managers. The results indicates that distributive justice strategies have a significant positive effect on customer satisfaction (R=0.421, F-ratio=36.323, R^2=0.177; $p<0.000$). It is also clear that distributive justice strategies explained 17.7% of customer satisfaction as depicted by the R^2.

As a first step to hypothesis testing, it is important to establish the validity of the complaint resolution theories and concepts used in the study. The study adopted the use of fairness' theory and particularly justice theory that has largely been used in conflict resolution. Exploratory factor analysis was performed to validate distributive justice strategies. This process yielded two factors underlying distributive complaint handling strategies on customer satisfaction and accounted for 57.122% of total variance with Eigen value greater than unity. These findings underscore the applicability of distributive justice theory in resolving customer complaints as propounded by (Deutsh, 1985) and supported by Tax & Brown (1998). This is contrary to Reis (1986) who suggested three principles of distributive justice i.e.; equity, equality and need. Further results indicates that one out of the two factors extracted (Need) accounts for 37.726% of the variance implying that the sampled customers prefer need complaint resolution strategies more than Equity (19.396%) based complaint resolution strategies. The overall factor analysis results on distributive complaint resolution justice strategies illustrates that 43% of variance were not accounted for. This implies that while the distributive justice theory is a valid model in resolving customer complaints, the factors identified were inadequate

Descriptive results presented in Appendix I indicate that all indicators of distributive justice strategies are significant ($p<0.05$) amongst bank customers. However results from bank managers' demonstrates that three indicators: Bank treats all customers equally (χ^2=4.85, *df*=3 p>0.183); Bank understands the needs of complaining customers(χ^2=2.71, *df*=2, p>0.257) and Bank regularly visits its customers(χ^2=2.71, *df*=2, p>0.257), are not significant ($p>0.05$). This implies that while all distributive justice strategies are significant amongst bank customers', all the strategies are not significant amongst bank managers hence suggesting the existence of contradicting views on the significance of complaint resolution strategies amongst customer and managers.

Further, individual factor performance as depicted by t-statistics expresses that equity has a t-value of 7.044 and that of Need is 3.315 both significant ($p<0.05$). Specifically, if Equity (x_1) changes by 1 unit then customer satisfaction (Y) level will change by 0.355 units. However, if Need changes by 1 unit, customer satisfaction will change by 0.167 units. Despite the fact that distributive justice strategies (Equity and Need) explain a relatively small percentage of only 17% as it's predictive power on customer satisfaction, their role cannot be underestimated since they are statistically significant.

On the overall, the findings suggest that complaint resolution strategies are important in achieving customer satisfaction. Levesque & McDougall (1996) confirm that service and complaint handling enhances customer satisfaction and that service and complaint handling are the most important customer satisfaction determinants in banks. According to Levesque & McDougall (1996) satisfaction can be restored, but not enhanced, when a complaint is properly handled, which is why attempts to make it right the first time are preferred. Rust & Subramanian (1992) recommend that complaint handling also improve satisfaction. In addition**,** the results are supported by Nyer (2000) who investigated the relationship between customer complaints and satisfaction and found that by encouraging consumers to complain increased their satisfaction especially amongst dissatisfied customers. Johnston (2001) asserts that complaint management not only results in customer satisfaction, but also leads to operational improvement and improved financial performance. In an effort to come up with effective complaints resolution strategies, banks' management must identify the source of complaints and subsequent fluctuations in customers' relationship otherwise known as triggers (Roos & Gustafsson, 2007). Tax et al., (1998) demonstrate that effective resolution of customer problems can have a positive impact on customers' trust and commitment. The complaint handling, therefore, is a critical "moment of truth" in maintaining and developing the customer relationships (Berry et. al., 1985; Dwyer et.al., 1987). Successful service companies recognize that while attracting new customers is vital, retaining current customers in a closer relationship is perhaps more essential for profitability (Johnson & Selnes, 2004).

By understanding the complaint process and the customer complaint behaviour, the service company can learn how to reduce the impact of an unfavourable service experience or complaint. Unhappy customers often voice their displeasure in the form of negative word-of-mouth to other current and potential customers (Ah-Keng & Loh, 2006; Richins, 1983; Singh, 1988; Voorhees et al., 2006). On the other hand, if the complaint is properly handled the customer may engage in positive word of- mouth (Helm, 2003; Shields, 2006).

The importance of complaints raised by customers in improving service delivery should not be overlooked. Customer complaints may be useful in many ways: providing marketing intelligence data (Harrison-Walker 2001), identifying common service problems (Harari, 1992; Johnston & Mehra, 2002; Rickhins & Verhage 1985; Tax & Brown 1998), learning about organizations (Hoch & Deighton, 1989; Johnston & Mehra, 2002; Tax & Brown, 1998), improving service design and delivery (East 2000; Marquis & Filiatrault, 2002; Tax & Brown, 1998), measuring and enhancing the perception of service quality (Edvardsson, 1992; Harrison-Walker, 2001; Marquis & Filiatrault, 2002), and helping strategic planning (Dröge & Halstead, 1991; Johnston & Mehra, 2002).

CONCLUSION

Services are central to the economic activity and are therefore not peripheral activities but rather integral parts of society including Kenya. They are central to a functioning and health of an economy. Customer complaints should therefore be treated as an important opportunity for service providers (banks included) to improve their service offerings to the market place in a timely and spontaneous fashion (Barlow & Moller, 1996). Customer complaints should be transformed into knowledge about the customer so as to provide a valuable amount of capital for enterprises (Gonzalez, 2001). To exploit this capital, organizations must design, build, operate and continuously upgrade systems for managing customer complaints. Therefore customer centricity in the 21st century in view of competitive market place occasioned by globalization should to be the goal of every bank world-wide and more so in developing countries like Kenya. Complaint handling can be a significantly superior investment for a service company and can generate 30- 150 percent return on investment (Brown 2000).

The effect of distributive justice strategies on customer satisfaction is well documented in literature. However, the present study establishes that there are only two factors as far as distributive justice is concerned. These include the factors of need (x_2) and equity (x_1). Distributive justice strategy as originally defined by Deutch (1985) and Reis (1986) encompassed the factors of equity, equality and need. However the study ascertains two factors; equity and need as measures of distributive justice strategies. The study therefore calls for a review of distributive justice theory components especially in developing countries such as Kenya. Hence, justice theory provides a solid and grounded framework in resolving conflicts not only in social circles but also in business and more so in the service sector.

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Appendix I: Summary Table: Respondents rating on distributive strategies towards customer satisfaction

Item Description	Respond.	1		2		3		4		5		Statistic		Skewness	Kurtosis Test statistic	Skewness
		f	%	f	%	f	%	f	%	f	%	M	SD	M		χ^2 df p
Bank values all its customers	C M	24	7.1	57	16.6	102	30	122 2	35.9 14.3	35 12	10.3 85.7	3.26 4.8	1.076 0.363	-0.367 -2.295	-0.510 3.792	106.147 4 0.0 7.14 1 0.008
Bank treats customers equally	C M	16 2	4.7 14.3	66 2	19.4 14.3	101	29.7	118 3	34.7 21.4	39 7	11.5 50	3.29 3.79	1.053 1.578	-0.247 -0.961	-0.616 0.759	104.97 4 0.000 4.85 3 0.183
Bank treats all customers without discriminating them	C M	28	8.2	95	27.9	104 2	30.6 14.3	74 2	21.8 14.3	39 10	11.5 71.4	3.00 4.57	1.135 0.756	0.128 -1.526	-0.386 0.936	66.21 4 0.000 9.14 2 0.01
Bank understands the needs of its complaining customers	C M	26	7.6	148	43.5	115 2	33.8 14.3	40 7	11.8 50	11 5	3.2 35.7	2.59 4.21	0.909 0.699	0.536 -0.321	0.117 -0.633	211.85 4 0.000 2.71 2 0.257
Bank regularly visits its customers	C M	126	37.1	115	33.8	43 7	12.6 50	30	8.8	26 2	7.6 14.3	2.16 3.64	1.231 0.745	0.966 0.731	-0.049 -0.637	138.32 4 0.000 2.71 2 0.257
Bank systematically registers and analyses customers' complaints	C M	130	38.2	78 2	22.9 14.3	78 2	22.9 14.3	33 1	9.7 7.1	21 9	6.2	2.23 4.21	1.228 1.188	0.684 -1.12	-0.533 -0.413	109.97 4 0.000 11.71 3 0.008

Key: Measurement scale range between 1 and 5: **1** = strongly disagree, **2** = disagree, **3** = moderately agree, **4** = Agree, **5** = strongly agree
C = Customer M = Manager
Source: Research data (2010)

Appendix II: Customer satisfaction indicators

Item Description	Respond	1		2		3		4		5		Statistic		Skewness	Kurtosis	Test Statistics		
		f	%	f	%	f	%	f	%	f	%	M	SD	M		x^2	*df*	*p*
Customers are generally delighted with the bank's C.R.S.	C M	73	21.5	122	35.9	74	21.8	62 10	18.2 71.4	7 4	2.1 28.6	2.46 3.29	1.177 1.541	1.352 -0.853	6.881 -1.-49	184.59 4.00	5 2	0.000 0.135
Customers are generally happy with the bank's C.R.S.	C M	36	10.6	116	34.1	116 2	34.1 14.3	65 8	19.1 57.1	7 4	2.1 28.6	2.68 3.93	0.969 0.997	0.111 -0.925	-0.595 0.327	137.67 6.00	4 3	0.000 0.112
Customers are generally contented with the bank's C.R.S.	C M	55	16.2	134 2	39.4 14.3	87 3	25.6 21.4	52 4	15.2 28.6	12 5	3.5 35.7	2.51 3.86	1.046 1.027	0.428 -0.669	-0.469 -0.355	121.73 3.140	4 3	0.000 0.370

Key: Measurement scale range between 1 and 5: **1** = strongly disagree, **2** = disagree, **3**=moderately Agree, **4**= agree, **5**= strongly agree
C = Customer M = Manager
Significance: $p \leq 0.05$
Source: Research data (2010)

Appendix III: Distributive justice strategies factors total variance explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.264	37.726	37.726	2.264	37.726	37.726	1.825	30.420	30.420
2	1.164	19.396	57.122	1.164	19.396	57.122	1.602	26.702	57.122
3	.993	16.554	73.675						
4	.645	10.743	84.419						
5	.524	8.739	93.157						
6	.411	6.843	100.000						

Extraction Method: Principal Component Analysis.
NB: Two components factors with Eigen values>1.0 were extracted
Source: Research data (2010)

Appendix IV: Rotated component matrix [a] for distributive justice factors

	Component	
	X_1	X_2
Banks values all its customers	.831	
Banks treats all customers without discrimination	.697	
Banks treats customers equally	.534	
Bank regularly visits its customers		.802
Bank systematically registers and analyses customers complain		.705
Reliability Test: Cronbachs α values (Composite α=0.632)	0.537	0.408
Banks values all its customers	.831	

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 3 iterations.
Source: Research data (2010)

Appendix V: Organizational distributive justice complaint resolution strategies effects on customer satisfaction.

	Model Summary						ANOVA Summary	
Model	R		Adjusted	Std. Error of the Estimate	Durbin-Watson	*df*	F	*P*
1	.421[a]	.177	.172	.83127	1.531	2	36.323	0.000

Appendix VI: Coefficients of regression model between organizational distributive justice factors and customer satisfaction

		B	Std. Error	Beta	t	sig	Lower Bound	Upper Bound	Tolerance	VIF
1.	(Constant)	.890	.200		4.446	.000	.496	1.283		
	EQUITY	.413	.059	.355	7.044	.000	.298	.529	.961	1.040
	NEED	.157	.047	.167	3.315	.001	.064	.250	.961	1.040