



Trust Recovery Tactics in Financial Services: The Moderating Role of Service Failure Severity

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Abstract

Purpose: Given the fierce competition in financial services, service failure management and trust restoration tactics are becoming strategic priorities. Studies investigating trust restoration have increased over the years due to the significance of trust in services and the frequency of trust violations. Drawing on the sense-making and defensive approaches of attribution theory, we explored the effectiveness of various trust recovery tactics (e.g., apology, explanation, and investigation) in financial services considering the prevalence of service failure severity.

Method/Design: Based on a scenario-based survey, we gathered data from 402 consumers of different banks in Pakistan. The study analyzed the data using ordinary least square regressions and structural equation modeling.

Results: The study indicated that explanation is more effective in repairing character-competence and commitment-based trust, while investigation remained highly effective for inducing congruence-based trust. Interestingly, an apology was more effective for communication-based trust repairing, while context-based trust recovery was unaffected against all recovery tactics. Despite the prevalence of severe service failure, recovery actions proved fully effective for character-competence and commitment-based trust while partially effective for congruence-based trust recovery. We also found that severe service failure undermines the effectiveness of recovery actions in repairing communication and context-based trust.

Originality: The study extends the literature on trust recovery by integrating sense-making and defensive attribution theory. The sense-making approach contributes to the existing knowledge on trust recovery by elucidating how consumers and service providers develop a shared understanding to facilitate the recovery mechanism of multidimensional trust in financial services.

Keywords: Trust; Trust recovery tactics; Failure severity; Financial services; Apology; Millennials; Explanation; Investigation

1. Introduction

In today's global market, the intense competitive pressure on financial service providers necessitates rigorous marketing strategy planning and implementation (Tsiotsou, 2008). Financial services (e.g., banks) are attempting to provide improved services by enhancing consumers' experiences (Zavolokina et al., 2016) and securing their trust (Ennew and Sekhon, 2007; Tsiotsou, 2008). Trust refers to the willingness of an individual, group, organization, or institution (i.e., a trustor) to accept risk or vulnerability arising from the actions of another party (i.e., a trustee), with the expectation that the trustee will not act contrary to the interests of the trustor (Moin *et al.*, 2021). Trust is a fundamental feature of social interactions and is considered the bond of consumer-firm relationships (Ennew *et al.*, 2011), leading to several positive outcomes such as customer loyalty and commitment (Morgan and Hunt, 1994) and increased profits (Simons and McLean Parks, 2002). Therefore, the marketing literature considers trust a key concept in every marketing relationship (Morgan and Hunt, 1994; Shim *et al.*, 2013).

However, service failures may jeopardize consumer-firm relationships and damage consumers' trust. Some functional or technical deficiencies in financial services may be uncontrollable, resulting in customer dissatisfaction and a lack of trust (Bozic and Kuppelwieser, 2019). Because of unanticipated hazards (e.g., the misappropriation of personal information), consumers are skeptical and distrustful of financial services. For example, Ennew and Sekhon (2007) reported severe violations of trust in the banking sector, such as a seventeen percent error rate in crediting/debiting accounts. Such negative events are reported as trust-inflicting situations (Bansal and Zahedi, 2015). Incidentally, in late 2021 and early 2022, different Pakistani banks (National Bank of Pakistan, Habib Bank Limited¹,

¹ <https://tribune.com.pk/story/2354210/another-bank-faces-data-theft-1>

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3 BankIslami, and Bank Al Habib²) were under cyber-attacks, and customers experienced
4 shocking alerts about erroneous financial losses (i.e., fraudulent transactions, overcharging)
5 by banks or otherwise. People rushed to social media communities of banking institutions,
6 asking and complaining about overcharging alerts (Dawn, 2022).
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12 If loss of trust results in loss of sales and customers (Morgan and Hunt, 1994), trust
13 recovery may become indispensable to sustaining profits and customer retention. Therefore,
14 banks employ specific marketing strategies to resolve the concerns and requirements of their
15 customers and establish their credibility. Jarvinen (2014) argues that banks gain clients' trust
16 by exhibiting dependability and adhering to rules and regulations. McNeish (2015)
17 recommends structural assurance to maintain consumers' faith in online banking. However,
18 more evidence must be given regarding banking firms' strategies to restore damaged trust.
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28 In light of the significance of trust and the rising frequency of trust violations
29 (Bachmann *et al.*, 2015; Gillespie *et al.*, 2014), an expanding body of research from a variety
30 of academic fields has begun to look at the possibility of trust recovery and repair (Bachmann
31 *et al.*, 2015; Bozic and Kuppelwieser, 2019). Bozic and Kuppelwieser (2019) distinguish the
32 terms trust recovery and repair by considering *trust repair* as “a dominant theoretical
33 approach to trust recovery” and *trust recovery* as “the trust violator's activities (trust repair
34 actions)” (p. 208). Moreover, most available research focuses on the firm’s trust-recovering
35 actions disregarding consumers’ damaged trust (Bozic and Kuppelwieser, 2019) and their
36 dialectic engagement in the service recovery process (Tsiotsou, 2021). Given this void in the
37 literature regarding recovery tactics, more research is needed to explore and understand how
38 consumers react to new trust recovery tactics other than the existing ones.
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54 In addition, most extant research treats trust from a service provider perspective
55 (trustee). Recently, Moin *et al.* (2021) identified five aspects of consumer trust that can be
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59 ² <https://digitalrightsmonitor.pk/in-pakistan-banking-sector-most-vulnerable-to-cyber-attacks/>
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3 damaged in financial services: character-competence, congruence, communication,
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5 commitment, and context trust. Their scale comprehensively conceptualizes trust and
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7 includes trustee-related features and trustor- and context-oriented attributes. However, Moin
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9 et al. (2021) did not examine the recovery tactics when a service failure damaged the various
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11 trust dimensions. Thus, there is a need to understand how service recovery tactics influence
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13 different trust dimensions in financial services.
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17 The trust recovery literature shows that damaged trust depends on the severity of
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19 service failure (Krishna *et al.*, 2011; Shams *et al.*, 2020). If damaged trust is conditional to
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21 the severity of service failure, then trust recovery would also depend on the level of service
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23 failure severity. Although service failure severity has been studied as a key variable of
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25 understanding service failure and recovery (e.g., Shams *et al.*, 2020; Singhal *et al.*, 2013;
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27 Weun *et al.*, 2004), no previous investigation has studied its moderating role between
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29 recovery tactics and trust dimensions in financial services. Thus, it is promising to explore the
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31 impact of recovery tactics on various aspects of trust in financial services and analyze the
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33 effectiveness of such tactics by considering the severity of service failure as a boundary
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35 condition.
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40 Based on the above discussion and the identified knowledge gaps, the present study
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42 aims to investigate the role of service recovery tactics on the newly conceptualized consumer
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44 trust at three levels of failure severity (low, medium, and high) in financial services.
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46 Although several trust recovery tactics have been proposed in the literature (Bansal and
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48 Zahedi, 2015; Bozic and Kuppelwieser, 2019; Brühl *et al.*, 2018; Fuoli *et al.*, 2017; Roy *et*
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50 *al.*, 2022), we chose to study apology, explanation, and investigation, because they represent
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52 emotional, cognitive, and behavioral recovery actions, respectively, and have been proposed
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54 as substantive trust recovery actions (Gillespie and Siebert, 2018). Moreover, we examined
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56 their effect on the newly conceptualized five dimensions of trust, character-competence,
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3 congruence, communication, commitment, and context trust (Moin et al., 2021), because
4 these aspects are comprehensive (consider the trustee and the trustor side) and relevant to the
5 context of our study (financial services). To achieve the study objective, we integrated the
6 sense-making and defensive approaches of attribution theory and used a scenario-based
7 quasi-experimental method to test the proposed conceptual model.
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15 This study makes several theoretical and managerial contributions. Theoretically, this
16 research extends the literature on trust recovery by integrating sense-making and defensive
17 attribution theory. The sense-making approach contributes to the existing knowledge on trust
18 recovery by elucidating how consumers and service providers develop a shared
19 understanding to facilitate the recovery mechanism of multidimensional trust in financial
20 services. Thus, it sheds light on the mechanism of trust restoration considering the firms'
21 actions, consumer reactions, and the context of service failure. Moreover, the study benefits
22 the financial services literature concerning trust recovery and a better understanding of how
23 bank customers experience service failures and recovery actions. Finally, the study's findings
24 provide valuable guidelines to managers regarding using the most appropriate recovery tactic
25 based on the severity of service failure and the type of consumer trust they aim to induce.
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40 We organize the remainder of the paper as follows. The next section discusses trust
41 restoration in financial services. Then, we present the proposed conceptual model and its
42 hypotheses. In the subsequent sections, we present the method and results of our study. We
43 then discuss the theoretical and practical implications of our findings. We conclude by
44 recognizing the limitations of our research and by providing future research directions.
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2. Review of Literature

2.1. Trust restoration in financial services

Trust has dynamically been conceptualized in different ways triggering a considerable discussion about its dimensionality and antecedents (Tabrani *et al.*, 2018). Moorman *et al.* (1993) defined trust as reliance on an exchange partner owing self-confidence by one of the parties. While Doney and Cannon (1997) explained trust as credibility (perception about a firm's promises to be trusted) and benevolence (belief about a firm's motives to be beneficial). From an exchange perspective, trust prevails when a party has the assurance of the other partner's reliability and integrity (Morgan and Hunt, 1994). These definitions provide an undertaking about trust between two parties in general but trust in a firm's services from a customer perspective could be different. In this regard, Garbarino and Johnson (1999) state that trust is customers' confidence in the quality of services and products offered by a firm. According to Mayer *et al.* (1995), trust is "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (p. 712). This discussion can be summed up by claiming that trust lies between two parties bound for exchange relationships with a similar prevalence of uncertainty and vulnerability for the innocent party.

In marketing, trust has been regarded as a prerequisite and a vital element for successful customer-firm relationships (Morgan and Hunt, 1994; Xie and Peng, 2009), resulting in increased purchase intentions and sales (Simons and McLean Parks, 2002; Wang *et al.*, 2015). Scholars have conceptualized trust as comprising beliefs like honesty, benevolence, competence (Doney and Cannon, 1997), integrity, predictability (McKnight *et al.*, 1998), consistency, shared values, and communications (Ennew *et al.*, 2011; Ennew and Sekhon, 2007). The existing literature entails conceptualizations of trust (i.e., trustworthiness

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3 rather than trust) from a trustee perspective, while contextual and trustor attributes have been
4 overlooked (Moin *et al.*, 2021). Due to the intangible nature, the heterogeneity (Ennew *et al.*,
5 2011; Sekhon *et al.*, 2014), and the high perceived risk (Allen and Gu, 2018) of financial
6 services, consumer trust is pivotal in this sector. Trust in banking firms seems blind at the time
7 of account opening and develops over time while taking services from the banks. At this
8 stage, the establishment of trust depends upon the trustor's expectations as well as the
9 motives of the service provider (Doney and Cannon, 1997). Literature supports this notion by
10 explaining that customers form their trust by experience with a firm, providing an opportunity
11 to assess its integrity and benevolence (Choi and La, 2013). Our descriptive analysis indicates
12 that 62% of the customers were using the services of their respective banks for more than two
13 years, which further supports the fact of trustworthy relations with the banks.
14 Characteristically, the level of trust increases as the services provision process remains
15 smooth, but in case of any discrepancy, the customer may experience a reduced level of trust.
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33 Hence, a key challenge for financial institutions (i.e., banks) is how trust is initially
34 developed and can be restored after a service failure. Customers demand restoration (i.e.,
35 service recovery) when their needs are not satisfied or unexpected negative events occur (i.e.,
36 service failure) before switching to another service provider. Customers' demand for service
37 recovery allows firms to overcome damaged customer relations and reduce customer
38 turnover. According to Bozic (2017), trust repair or recovery refers to the "improvement in a
39 trustor's trust after a trust violation damaged it" (p. 539). Trust is vulnerable to various
40 destructive threats (Xie and Peng, 2009), including functional, relational, and technical
41 threats. Hence, trust restoration is essential, and the organizations' ability to recover trust
42 remains a critical issue with practical worth (Xie and Peng, 2009).
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2.2. *Theoretical grounding of trust recovery*

Scholars have used various theories to enhance our understanding of trust recovery, including social equilibrium, structural, and attribution theories (Dirks *et al.*, 2009; Gillespie and Siebert, 2018). Social equilibrium is a relational approach concerning eliminating negative emotions and restoring trust through rituals and social acts in the social context. At the same time, the structural process involves regulation and formal control to restrain untrustworthiness and further transgressions in the social structural context by discouraging negative and encouraging positive exchange (Dirks *et al.*, 2009; Gillespie and Siebert, 2018). Consequently, attribution theories are concerned with the "how" and the "what" through which individuals interpret information to comprehend, evaluate, and act upon occurrences (Manusov and Spitzberg, 2008). However, despite the social and structural nature of the first two approaches, we have employed the sense-making approach involving an attributional process where customer trust is recovered by developing a shared understanding of "what" happened and "why." For example, compared to an apology as a base condition, "what" will help postulate the explanation as a recovery tactic, while "why" will provide a base for the investigation-related hypotheses. Additionally, the attributional approach fits the most in our study context, as they describe social actors' attribution of violations as a cause of loss and repair as the cognitive process of restoring trust (Dirks *et al.*, 2009; Tomlinson and Mryer, 2009).

Bachmann *et al.* (2015) identified sense-making as a critical complementary trust repair mechanism focusing on social and cognitive influences. This approach comprises strategies such as "apologies and explanations, substantive actions and offers of penance aimed at shifting attributions, as well as investigations to establish an 'official' account of 'what happened and why'" (Gillespie and Siebert, 2018). Under the sense-making approach, the proposed trust repair tactics affect customers directly, supporting comprehensive trust

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3 repair. The sense-making approach extends the existing knowledge on trust recovery by
4 answering how customers and service providers develop shared understanding to foster the
5 recovery mechanism of multidimensional trust in financial services.
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10 In addition, Walster's (1966) defensive approach explains the attribution of
11 responsibility during adverse events concerning the severity of that negative event for which
12 people tend to attribute the party responsible. In light of the defensive approach, considering
13 a service failure as a negative event, consumers may attribute their damaged trust to the
14 service provider (i.e., bank). Hence, defensive attribution theory potentially applies to the
15 trust recovery process, explaining that customers attribute responsibility to firms as the
16 severity of service failure enhances. Following this, the defensive approach is believed to
17 contribute to trust recovery literature by answering how the effectiveness level of recovery
18 tactics on different trust facets varies concerning the severity of service failure, which causes
19 customers' distrust in financial services.
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32 **3. Conceptual model and study hypotheses**

33 **3.1. *Apology versus explanation/investigation as trust recovery tactics***

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Scholars have abundantly explored the role of apology in trust restoration since an
apology signals empathy to customers who have experienced a service failure (Smith *et al.*,
1999) and improves customers' attribution of recovery encounters (Ennew and Sekhon,
2007). Apologies can be the first step in recovery (Bozic and Kuppelwieser, 2019), and firms
must achieve satisfactory trust repair (Fuoli *et al.*, 2017). However, a verbal response like an
apology can be attributed as "cheap talk" since it does not entail any tangible element (Cui *et al.*,
2018a) when a trust violation due to a service failure entails a financial loss (Roy *et al.*,
2022). Furthermore, an apology acknowledges the customers' suffering (Davidow, 2003),
indicating a firm's know-how about the problem (Bozic and Kuppelwieser, 2019). However,
customers experiencing a service failure and some loss may not trust the service provider

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3 again if only an apology is provided. Therefore, an apology may not be enough, and an
4 explanation may be a more effective trust recovery tactic. Proper explanation of the negative
5 event reflects the management beliefs and practices in developing trust (Ennew *et al.*, 2011),
6 which the customer might attribute to organizational concern for customers fostering the level
7 of trust in financial services. We discuss the five dimensions of trust proposed by Moin *et al.*
8 (2021) and their relations to the trust recovery tactics, apology, explanation, and
9 investigation, to formulate the study's hypotheses.

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19 *Character-Competence*: Mayer *et al.* (1995) have identified ability competence as an
20 important determinant of organizational and interpersonal trust. Moin *et al.* (2021) identified
21 character competence as acting morally and ethically with expertise to deliver what is
22 expected. Due to the intangible nature of financial services, customers' need for trust emerges
23 in the service provider's character competence. When customers experience service failure,
24 the character-competence aspect of trust in financial services becomes questionable due to a
25 lack of integrity, honesty, fairness, and reliability in financial transactions. In this scenario,
26 we argue that the absence of ethicality and morality in financial services needs explanations
27 rather than apologies to understand how the service provider has damaged their trust in
28 character-competence. A proper explanation of the negative event is expected to develop a
29 shared understanding and sense among customers, recovering their character-competence-
30 based trust in financial services more effectively than an apology.

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47 *Congruence* refers to the shared values between service firms and their customers
48 (Ennew and Sekhon, 2007; Moin *et al.*, 2021). The relationship between customers and
49 service providers is stronger when both parties share similar values (Morgan and Hunt,
50 1994). Conversely, when experiencing a service failure, customers may attribute it to a lack
51 of shared values with the service provider. However, explanations of the negative happen
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3 enable customers to feel served following their values and concerns; they have greater trust in
4 the service provider.
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8 *Communication:* Service providers tend to uphold an open dialogue with their
9 customers by exchanging information to induce their trust (Ennew *et al.*, 2011) and develop
10 longitudinal relationships. This communication may entail an apology acknowledging the
11 service failure problem. However, service providers may also explain a recovery tactic and an
12 apology (Casado *et al.*, 2011). When customers complain about service failure situations,
13 they require an explanation of the service failure, its causes and what the financial institution
14 had or had not done wrong, and how the firm or the customer can avoid the occurrence of the
15 same problem in the future. Such explanations can be influential for trust restoration if the
16 content is relevant to the customers (Isaeva *et al.*, 2020), mitigating negative reactions. The
17 content of the explanation may include problems pertinent to a service failure, either internal
18 or external, and recent developments in the service delivery process that has yet to be
19 communicated to customers. Thus, compared to an apology, an explanation mitigates the
20 harmful effects of service failure and develops a sense of service failure via fruitful
21 communication in financial services.
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40 *Commitment:* According to Morgan and Hunt (1994), commitment is a bilateral
41 phenomenon with an enduring desire of two parties (i.e., trustee-bank and trustor-customer)
42 to maintain a valuable relationship. Moin et al. (2021) support that commitment is an attribute
43 of the trustor, demonstrating dispositional trust (the trustor's propensity to trust in specific
44 situations), not the trustee. When service failure occurs, commitment is questionable due to
45 the damaged trust (Hurley, 2011). Hence, we argue that customers lose their commitment to
46 the service provider when a service fails. However, when customers receive an explanation
47 rather than just an apology for the service failure, they attribute the firm's concern to making
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3 things understandable and ensuring the continuity of customer relations. Thus, an explanation
4 may be more appropriate for restoring commitment-related trust than an apology.
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8 *Context:* This dimension of trust can be characterized as interpersonal, situational, or
9 structural trust in a system, such as a financial system (Moin *et al.*, 2021; Zheng *et al.*, 2017).
10 Several factors explaining the context dimension may include the organization's
11 implementation of policy and procedures, faith and confidence in the financial system,
12 ethicality and honesty of the institution, and employees' professionalism (Zheng *et al.*, 2017).
13 Customers are expected to have high trust in financial services when contextual factors are
14 per customers' beliefs and vice versa. However, when complaining customers have explained
15 a failure, such as some technical fault in the system, they might attribute it as part of
16 institutional amendments or out of administrative control. Further, compared to an apology, a
17 fruitful explanation given by the employees handling complaints would be attributed by the
18 customers as professional. In this way, in contrast to an apology, the explanation can play a
19 relatively more influential role in recovering trust in financial services (Figure 1).
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35 *Hypothesis 1: Explanation is more effective than an apology in recovering (a)*
36 *character competence, (b) congruence, (c) communication, (d) commitment, and (e)*
37 *context trust in financial services.*
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45 However, an explanation might only partially recover customers' trust because a
46 service failure may involve financial loss or risk. An investigation may solve the trust
47 recovery of customers requiring service failures (Bozic and Kuppelwieser, 2019). Gillespie
48 and Dietz (2009) suggested that an effective trust repair process requires acknowledgment of
49 the problem and the announcement of a thorough investigation. After service failure,
50 customers may lose their trust in the service provider. However, receiving an apology may
51 trigger their interest in understanding what caused the failure rather than only solving the
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3 problem (Bozic and Kuppelwieser, 2019). Any failure in the banking system is not rectified
4 immediately without exploring the cause of failure. Hence, launching an investigation might
5 influence the restoration of trust because it will clarify the cause of failure.
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10 Launching an investigation aims to find the cause of a service failure and provide a
11 proper solution to the problem. Bozic and Kuppelwieser (2019) explain that launching an
12 investigation tends to help customers make sense of the problem (e.g., what happened, what
13 kind of risk the problem entails, and who was to blame). According to the sense-making
14 approach of attribution theory (Bachmann *et al.*, 2015; Gillespie and Siebert, 2018), the trust
15 repair tactic should involve an official investigation to discover what happened and why
16 (Isaeva *et al.*, 2020). In this way, by launching an investigation as a trust recovery action, the
17 assurance of rectifying the problem is expected to result in improved trust.
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28 Investigation of service failure sources may be a better approach to recovering
29 damaged trust than just offering an apology because customers will better understand the
30 firm's control over resolving the problem. Kim *et al.* (2009) explain that trust repair is the
31 bilateral process through which attributions regarding transgression are made. Customers ask
32 if the negative event (i.e., service failure) is caused by either a situation or external attribution
33 (i.e., system-related) or internal attribution (employees, policies, and procedures) and about
34 the fixability or continuance of the problem. Furthermore, launching an investigation could
35 have some important implications for the assurance of quality communication, indicating the
36 service provider's concern for customers making things understandable, and restoring trust in
37 financial services. This recovery tactic could also foster customers' confidence and trust in
38 recovery. In short, launching an investigation makes sense to customers attributing
39 organizational concern to maintaining trust rather than just apologizing or acknowledging the
40 occurrence of a service failure. Based on the above discussion, we hypothesize that:
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3 **Hypothesis 2:** Investigation is more effective than an apology in recovering (a)
4 character competence, (b) congruence, (c) communication, (d) commitment, and (e)
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6 context trust in financial services.
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10 3.2. **The moderating role of service failure severity on trust recovery**

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12 Service failure is inevitable and can occur during the delivery process or as an
13 outcome (Isaeva *et al.*, 2020). It can be when customers do not receive their expected value
14 from the service (Michel *et al.*, 2009). In the banking sector, service failure can be the
15 unavailability of cash from automated teller machines (Isaeva *et al.*, 2020) and the inability to
16 provide appropriate customer information about their transaction records (Singhal *et al.*,
17 2013). In this study, we refer to financial service failure as a bank's inappropriate record of
18 transactions to the concerned accounts (i.e., debit/credit) and deliberate overcharging of
19 certain services without intimating the customers. Overcharging might not be a service failure
20 with great severity or magnitude for some people, but it could be of great concern to have
21 trust in the services after a negative event. The literature on trust recovery has shown that
22 recovery of damaged trust is influenced by the severity of the service failure (low, medium,
23 and high) (Krishna *et al.*, 2011; Shams *et al.*, 2020). Similarly, the magnitude of service
24 failure refers to the high or low loss occurred by service failure (Singhal *et al.*, 2013).
25 Interchangeability, like service failure severity and magnitude, we have taken the service
26 failure severity as a boundary condition in this study when exploring the effectiveness of
27 recovery tactics on trust in financial services.
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49 Although service failure severity has been studied as a critical variable in
50 understanding service failure and recovery (e.g., Shams *et al.*, 2020; Singhal *et al.*, 2013;
51 Weun *et al.*, 2004). Weun *et al.* (2004) define *service failure severity* as the "customer's
52 perception of the intensity of a service problem" (p. 135). The extent to which customers
53 experience severe service failure, they perceive it as harmful (Weun *et al.*, 2004). Variability
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3 in service failure severity can undermine the effectiveness of trust recovery tactics because
4 customers may experience different levels of severity. For example, an account holder
5 experiencing a deduction of a thousand might be more severe for a salaried person than a
6 businessperson. In line with the defensive attribution theory, customers assign more
7 responsibility to the service provider as service failure severity increases (Walster, 1966).
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14 During the prevalence of highly severe service failures, the trust might fall below its
15 initial level; hence, the need for trust restoration will be increased (Kim *et al.*, 2004). An
16 apology may not be the ultimate trust recovery tactic in this scenario. Customers may need an
17 explanation or even an investigation of the service failure as the severity level increases.
18 Hence, despite the severity of a service failure, an appropriate trust recovery action may
19 restore trust.
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28 Service failures differ in nature and severity (major or minor), especially in the
29 banking sector (Shams *et al.*, 2020). The literature supports that the magnitude (severity in
30 this study) of failure determines customers' complaining propensity (Lala and Priluck, 2011)
31 and the application of recovery strategies (Shams *et al.*, 2020). According to Krishna *et al.*
32 (2011), it is hard to recognize the level and root cause of service failure severity to
33 incorporate the appropriate recovery tactics to retain existing customers. According to the
34 defensive attribution approach, customers assign more responsibility to the transgressor when
35 the severity of an adverse event increases, whereas severe events require more explanation
36 (Zhou and Ki, 2018). In light of the sense-making approach, an explanation relative to an
37 apology provides various statements about the root cause, like what has happened. During
38 this process, customers develop their sense of the problem and recognize the serving
39 institution's concern for them (Bozic and Kuppelwieser, 2019). In this way, the severity of
40 service failure is attributed as low, and explanation serves as an effective trust recovery tactic
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3 compared to an apology. Following these arguments, an explanation compared to an apology
4 as recovery action is more influential on trust recovery. Therefore, we hypothesize that:
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8 ***Hypothesis 3: Explanation has a significantly higher effect in recovering a) character***
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10 *competence, (b) congruence, (c) communication, (d) commitment, and (e) context*
11 *trust in financial services when the severity of service failure is high than low.*
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15 Researchers have identified openness and transparency as crucial elements in
16 rebuilding trust and caution when apologizing for an alleged offense (Gillespie *et al.*, 2014;
17 Gillespie and Dietz, 2009). When customers complain about a failed service, service
18 providers should respond by offering an investigation of the problem and preventing its
19 reoccurrence (Bozic and Kuppelwieser, 2019). Thus, when the severity of a service failure is
20 high, customer complaints may not be handled just with an apology or explanation. However,
21 they may require an investigation of the adverse event to have more trust recovery on
22 financial services in response to service failure with the degree of severity.
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33 Investigation relative to apology indicates a willingness to understand what might
34 have gone wrong, shed light on all aspects of a service failure, and examine the supply chain
35 to resolve the problem (Bozic and Kuppelwieser, 2019). When offering an investigation,
36 customers can understand the firm's capability to control the problem, inducing a positive
37 attitude and trust toward the service provider. This way, the investigation becomes an
38 effective trust recovery strategy, explaining what happened and why (Gillespie and Siebert,
39 2018). Similarly, a defensive attribution approach suggests that an investigation helps foster a
40 shared understanding between the victimized customers of what happened and why,
41 demonstrating that the service provider accepts responsibility for the failure and is committed
42 to resolving the issue. In light of these arguments, investigation compared to an apology as a
43 trust recovery tactic may be more effective in high service failure severity.
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Hypothesis 4: Investigation has a significantly higher effect in recovering a) character competence, (b) congruence, (c) communication, (d) commitment, and (e) context trust in financial services when the severity of service failure is high than low.

4. Method

We used a scenario-based experiment in which participants were given a scenario, suffering a service failure (i.e., financial loss) because of manipulated accounting procedures of a banking institution to rate their trust in financial services after the bank had given account regarding this happening. This study explored the effectiveness of different recovery actions in recovering various trust facets. The study employed a between-subjects design involving a single multilevel factor where various recovery actions portray the levels of apology, explanation, and investigation. As per the nature of the study, realism is vital in trust repair and manipulating independent variables to examine causal relationships' paths (Brühl *et al.*, 2018). Hence, we have chosen the experimental vignette approach because of its soundness for testing our hypotheses. This methodology “enhances realism and allows researchers to manipulate and control independent variables, thereby simultaneously enhancing both internal and external validity” (Aguinis and Bradley, 2014, p.352). Such a method is particularly relevant for this study as the prevalence of various variables correlating with trust recovery. However, being beyond the scope of our study, the nature of such relations is unknown.

4.1. Participants and sampling

The respondents were original clients of various public and private banks (including the National Bank of Pakistan, Habib Bank Limited, Bank Islami, and Bank Al Habib) who suffered financial losses over the past six months due to technical difficulties or online scams caused by technological or cyberattacks. The respondents were approached for collecting the data by different means, such as visiting banks, shopping malls, social media, personal

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3 references, and social circles. Before the circulation of the questionnaire, respondents were
4
5 sampled by employing the critical incident technique (CIT), previously used in studies related
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7 to failed service recovery (Casado *et al.*, 2011). Gremler (2004) noted that in studies
8
9 involving service failure and recovery, CIT seems to be a valuable method, particularly in
10
11 service research. According to Casado *et al.* (2011), CIT can be defined as “a critical incident
12
13 as the most recent problem of special relevance that a customer had experienced during his or
14
15 her relationship with the main bank” (P.38). Hence in the context of this study, the
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17 respondents were briefed about critical incident comprising the whole situation of
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19 experiencing service failure (i.e., financial loss due to overcharging), approaching the serving
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21 bank for a complaint, and getting a response (i.e., apology, explanation, and investigation)
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23 from the bank. Only those who met the CIT criteria qualified to participate in the experiment.
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25 We distributed questionnaires with a particular service failure cum trust recovery scenario
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27 randomly among the participants of the experiment.
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33 **4.2. Setting**

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35 Financial services can be of different types, for example, banking, the stock market, and
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37 banking. Our experiment grounds in financial services of the banking sector as failures in this
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39 service industry are pretty common (Chebat and Slusarczyk, 2005); banking products/services
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41 are highly defused in consumer markets owing high probability of unsatisfactory customer
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43 experiences (Casado *et al.*, 2011); and trust violation in the banking industry is an ongoing
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45 phenomenon under study (e.g., Brühl *et al.*, 2018; Hurley *et al.*, 2014). There might be different
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47 ways to restore damaged trust in financial services, but the focus of our experiment is to
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49 explore the effectiveness of different recovery actions in that respect. Customers experiencing
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51 financial service failure, entailing economic loss, do not remain silent and complain to the
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53 serving bank to understand the happening of such a negative event. Scholars have explored
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55 different accounts given by the serving institutions in responses to a complained service failure,
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3 for example, customer trust violation and repair via no response, refusal, denial, apology, and
4 compensation (Bansal and Zahedi, 2015; Brühl *et al.*, 2018; Cui *et al.*, 2018a; Fuoli *et al.*,
5 2017; Knight *et al.*, 2015; Utz *et al.*, 2009). In the food industry context, Bozic and
6 Kuppelwieser (2019) explored narrative differences in trust recovery actions, for example,
7 explanation and investigation in addition to an apology. However, how these recovery actions
8 apply to trust recovery in financial services remains unexplored. Therefore, we have
9 established a scenario in which a bank as trustee, after a negative event, responds to customers
10 against their service failure complaints with the effect of recovering their trust in financial
11 services despite the different levels of service failure severity.

22 **4.3. Experimental task**

23
24 We developed three questionnaire versions with a particular service failure scenario and a
25 different trust recovery action (Brühl *et al.*, 2018): an apology, explanation, or investigation
26 (Appendix). Data were collected by randomly circulating one of the three self-reported
27 survey questionnaires among the qualified participants. Following our between-subjects
28 design, the experimental groups received three questionnaires containing identical service
29 failure scenarios and different trust recovery responses. Being a customer, participants must
30 have to mention at least one of their particular serving banks to be allowed to have the survey
31 questionnaire. The participants first read a scenario of a banking organization involving
32 service failure and a detailed response from the bank after putting complaint, then rated the
33 question of service failure severity and their trust in the financial services of their serving
34 bank. Before proceeding with data collection, we assessed the degree to which the scenarios
35 employed in this study reflected three types of trust recovery tactics (i.e., apology,
36 explanation, and investigation). Results of the pretesting analysis indicated significant mean
37 differences among trust dimensions based on recovery tactics. After this pretesting, we
38 distributed 450 questionnaires, 150 for each experimental group, and after sorting incomplete
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3 or biased responses, the final dataset of 402 responses was qualified for further analyses. We
4 retrieved 402 complete responses representing 136 of apology, 135 explanations, and 131
5 investigations.
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9 10 **4.4. Scenarios**

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12 The scenarios contain information about the service failure and different trust recovery
13 responses.
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16 *Service failure-* “Imagine you receive a statement for your credit card account, and you see
17 that you are charged with bigger amounts than appropriate.”
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21 *Trust recovery Responses-* In your follow-up on this matter, the customer service
22 representative first listens to your problem and then: (1) offers you a sincere apology saying,
23 “We are sorry”; (2) explains that, “We are not fully sure yet of the root cause of the problem
24 and discusses the next steps and possible solutions of the problem”; (3) shows, “Willingness
25 to investigate what went wrong and why; and ensures you that we will do everything possible
26 to solve the problem.”
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34 35 **4.5. Measures**

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37 *Trust in financial services:* A composite measure of trust in financial services was used
38 introduced by (Moin *et al.*, 2021) comprising 28 items with five subdimensions: (1) Character-
39 competence comprising nine items with sample item, “My bank shows high integrity” (2)
40 Congruence comprising four items with sample item, “My bank has the same values as me,”
41
42 (3) Communication comprising three items with sample item, “My bank communicates
43 regularly,” (4) Commitment comprising eight items with sample item, “I expect to do more
44 business with my bank in the next few years,” and (5) Context comprising four items with
45 sample item, “I have faith and confidence in the financial system.” All the items were measured
46 on a seven-point Likert-type scale (e.g., Strongly Disagree=1 to Strongly Agree=7).
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3 *Service failure severity:* We measured this variable through 4-items taken from (Tsarenko and
4 Tojib, 2012) with a sample item, “How severe do you think this problem (service failure) is?”.
5
6 on a seven-point Likert-type scale (e.g., [Not=1 to Very=7] severe, inconvenient, stressful, and
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8 unfair).
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11 **5. Results**

12 **5.1. Sample demographic profile**

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15 In brief, the participants were 61% male and 39% female; 68% were under 25 years
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17 old, 27% were 26 to 35, and 5% were older than 35. Regarding education, 42% of the
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19 participants were undergraduates, 54% were master's, and 4% were of doctorate. Participants
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21 reported their period of using banking services as 38% for ≤ 2 years, 35% ranged from 3 to 4
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23 years, and 27% remained above five years of service usage. Lastly, participants were also
24
25 asked about their frequency of service usage: 21% reported once, 18% used twice, 20%
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27 indicated three times, and 41% remained above four times in a month.
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33 *--Insert Table 1 Here--*
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35 **5.2. Measurement assessment**

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37 First, we conducted exploratory factor analysis (EFA) to extract factor structure and
38
39 confirmatory factor analysis (CFA) to validate our measurement model. Hence, EFA was
40
41 performed involving varimax rotation using principal component extraction. Using the
42
43 eigenvalues > 1 , we identified a six-factor structure with absolute factor loading values $> .6$.
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45 We found four items below the factor loading cutoff. We excluded them from CFA (see
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47 Table 2).
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52 *--Insert Table 2 Here--*
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54 Our CFA results revealed that the six-factor model was significant in fit indices ($\chi^2=$
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56 590.632, $df=307$, CFI=0.97, TLI=0.96, SRMR=.04, RMSEA=0.05, and PClose=0.71; see
57
58 Table 3). The validity of our measures was ensured first by examining the convergent
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3 validity: composite reliability (CR) and average variance extracted (AVE). We found CR and
4
5 AVE coefficients greater than the threshold value of 0.7 and 0.5, respectively (Fornell and
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7 Larcker, 1981), ensuring the convergent validity of our constructs. We also ensured the
8
9 discriminant validity by comparing the AVE of each variable with the maximum shared
10
11 variance (MSV) and the square root of AVEs with correlations among constructs (Hair *et al.*,
12
13 2010). We found all the values of AVE were greater than MSVs and the square root of AVEs
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15 than correlations among constructs, thereby providing support for discriminant validity (see
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17 Table 4).
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21 --Insert Table 3 Here--

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23 --Insert Table 4 Here--
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26 **5.3. Manipulation checks**

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28 Manipulation checks have shown that the manipulation was fruitful. The analysis of the trust
29
30 dimensions recognized that different trust recovery actions (stimuli) invoke different
31
32 assessments of trust dimensions, such as character-competence, congruence, communication,
33
34 commitment, and context. We performed a one-way multivariate analysis of variance
35
36 (MANOVA) to examine the main effects of recovery action on trust. Participants in the study
37
38 rated the three recovery actions differently for trust in financial services: character-
39
40 competence, $F(2, 399)=15.348$, $p<0.001$, $\eta^2p=0.075$; congruence, $F(2, 399)=13.687$,
41
42 $p<0.001$, $\eta^2p=0.038$; communication, $F(2, 399)=18.722$, $p<0.001$, $\eta^2p=0.045$; commitment,
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44 $F(2, 399)=23.804$, $p<0.001$, $\eta^2p=0.011$. We did not find a difference in recovery actions
45
46 among the participants against trust in one of the trust dimensions, such as context, $F(2,$
47
48 $399)=4.285$, $p<0.175$, $\eta^2p=0.009$, remaining insignificant (see Tables 5 and 6).
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We also performed post hoc pairwise tests to determine the effectiveness of recovery action on trust dimensions. Results indicate that participants rated character competence higher in an investigation than in an explanation and apology. Moreover, scores were higher for an explanation than an apology; congruence higher for investigation than explanation and apology and explanation remained insignificant; communication higher for apology than explanation and investigation; commitment higher for investigation than explanation and apology and higher for explanation than an apology. Context as a trust dimension exceptionally, and consistent MANOVA results remained insignificantly unaffected for all recovery actions. All post hoc comparisons were analyzed at a 5% significance level.

5.4. *Hypotheses testing*

The proposed hypotheses were analyzed by creating dummy codes (Brühl et al., 2018) to create independent variables for regression analysis. This act allowed us to assess the direct effects of three recovery actions (apology, explanation, and investigation) and the moderating hypotheses. We coded explanation and investigation as two dummy variables, while apology remained the referent condition, coded as 0 for the other two dummy variables. Furthermore, to statistically analyze the proposed hypothesis, we performed OLS regression for the main and direct effects of recovery actions on different trust dimensions. Then, we assessed how the impact of recovery actions on trust dimensions depends upon moderating the effect of service failure severity using model 1 with the add-on process for SPSS (Hayes, 2013).

5.4.1. *Direct effects*

Table 7 provides the regression results for the direct effects of recovery actions on different trust dimensions. A test for model 1 reveals that the customers ascribe an organization's offer to launch an investigation against the negative event as more responsible than an apology in character-competence-based trust restoration ($\beta=.471$, $p<0.01$). Similar is

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3 the case with an explanation where customers rated the explanation as a more character-
4 competence-based trust-recovering action than an apology ($\beta=.310, p<0.01$). Explanation and
5 investigation as recovery actions accounted for a 7.5% change in character-competence-based
6 trust restoration. These results provide support for hypotheses 1a and 2a. The test of model 2
7 reveals that investigation is more effective for congruence-based trust recovery than an
8 apology ($\beta=.450, p<0.01$).
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11 In contrast, the effectiveness of an explanation in comparison to the apology remained
12 insignificant ($\beta=.173, p>0.05$). This model accumulated a 3.8% change in congruence-based
13 trust restoration, supporting hypothesis 2a but not for 1a. An exciting finding can be found in
14 the analysis of model 3, indicating that neither explanation ($\beta=-.300, p<0.05$) nor
15 investigation ($\beta=-.528, p<0.01$) is more effective for communication-based trust recovery
16 than an apology. Here, an apology seems to be a more effective communication-based trust
17 recovery than an explanation and investigation, with a 4.5% change. Hence, model 3
18 provided us with converse results as hypothesized, indicating disapproval of hypotheses 1c
19 and 2c.
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38 *--Insert Table 7 Here--*
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40 Like model 1, model 4 indicates that investigation is more effective than an apology
41 for commitment-based trust recovery ($\beta=.563, p< 0.01$). On the other hand, the explanation
42 also proved to be an effective commitment-based trust recovery action compared to an
43 apology ($\beta=.449, p< 0.01$). All recovery actions accounted for an 11% change in congruence-
44 based trust restoration, hence lading support for hypotheses 1d and 2d. Finally, none of the
45 three recovery actions proved effective for context-based trust recovery, for example,
46 explanation ($\beta=.177, p>0.05$) and investigation ($\beta=-.068, p>0.05$). All the recovery actions
47 accounted for 09%, indicating a small or insignificant change in context-based trust
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3 restoration. These results contradict the proposed hypotheses, such as 1e for explanation and
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5 2e for investigation.
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7 8 5.4.2. Moderating effects 9

10 Before performing the moderation analysis, we generated several interaction terms
11 (e.g., explanation x service failure severity and investigation x service failure severity),
12 considering the apology as a base for comparative analysis of the other two trust recovery
13 actions. In addition, we calculated the mean centers of the variables before generating the
14 interaction terms (Hayes, 2013). Concerning the moderating impacts of service failure
15 severity on the effectiveness of recovery actions on different dimensions of trust in financial
16 services, our analysis provides mixed results with significant and insignificant effects.
17 Initially, service failure severity posed a significant negative effect on character competence
18 ($\beta = -.627$, $p < .05$), congruence ($\beta = -.315$, $p < .05$) and commitment ($\beta = -1.093$, $p < .05$), context
19 ($\beta = -.408$, $p < .05$) but a positive effect on communication ($\beta = .687$, $p < .05$) (see Table 8,
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21 Figures 2-4).
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35 --Insert Table 8 Here--
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37 --Insert Figures 2 to 4 Here--
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40 Our results confirm the interaction between explanation and service failure severity.
41 They indicate that when customers experience a high-severity service failure, an explanation
42 is an effective recovery action for restoring character-competence ($\beta = .674$, $p < .05$),
43 congruence ($\beta = .84$, $p < .05$), and commitment trust ($\beta = 1.093$, $p < .05$), however, not for
44 building communication and context trust. These results support hypotheses 3a, 3b, and 3d
45 but not hypotheses 3c and 3e. Finally, for the interactive effects of investigation and service
46 failure severity, we found character-competence ($\beta = .717$, $p < .05$) and commitment ($\beta = .998$,
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48 $p < .05$) positively and significantly contributed to the recovered trust in financial services. The
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3 trust dimensions, congruence, communication, and context were unaffected. These results
4 support hypotheses 4a and 4d but for hypotheses 4b, 4c, and 4e.
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10 **6. Discussion**

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12 This study aimed to analyze the effectiveness of recovery actions on trust. Our
13 proposed conceptual model theorized how different recovery actions affect the restoration of
14 various trust dimensions. Our findings confirm that trust is a multidimensional concept and
15 that trust recovery is a cognitive process that needs to be considered when devising recovery
16 strategies. The proposed mechanism of trust recovery is consistent with (Dirks *et al.*, 2011),
17 positing that the effectiveness of specific recovery actions on trust restoration can be
18 enhanced by focusing on customers' different cognitive processes.
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28 The study confirms that investigation is the most effective recovery action for trust
29 restoration, followed by an explanation compared to an apology. This finding corresponds to
30 the results of other studies where sole reliance on an apology was inefficient (Roy *et al.*,
31 2022), and apology outperformed other trust recovery tactics like compensation (Kim *et al.*,
32 2004). Our results contradict the findings of Brühl *et al.* (2018), where an apology is the
33 single most effective strategy for repairing trust. Customers perhaps perceive apology as the
34 disposition of politeness, courtesy, and empathy (Smith *et al.*, 1999) and guilt (Casado *et al.*,
35 2011). However, an apology might not be sufficient and need more recovery efforts to restore
36 trust because customers seem more concerned with rectifying economic loss than
37 organizational sympathy. Hence, an explanation seems suitable after apologizing, detailing
38 the reasons behind service failure, such as incorrectly debiting or crediting customer account
39 charges. Customers might resort to such charges disadvantaging them in financial services
40 due to high cost and affordability (Shim *et al.*, 2013). When a service failure appears
41 rectifiable and controllable for the serving bank, it might be sufficient for customers to
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3 recover their trust. In addition, service failures are different (Sitkin and Roth, 1993), making
4 it hard to explain. A service provider might not be able to recover trust unless the root cause
5 and possible solution to the problem are found. Hence, when explanation becomes
6 ineffective, investigation as a recovery action becomes the last resort for trust recovery to be
7 built; if the investigated issue is resolved later, customers' trust will be fully recovered.
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15 In addition, our results reveal the effects of different recovery actions on various
16 dimensions of trust in financial services. Regarding character-competence-based trust, our
17 results indicate that an investigation is a more effective trust recovery action than an apology.
18 Customers experiencing service failure and being offered only with apology are expected to
19 ascribe the negative event just as acknowledgment and poor character-competence exhibit
20 lower trust. Conversely, when customer accounts are charged with higher amounts than
21 usual, the problem can be explained in terms of increased service charges to develop an
22 understanding of the event among the customers, leading to an improved character-
23 competence-based level of trust. These results align with Yun and Hanson's (2020) findings
24 that an increase in service price does not significantly impact customer loyalty in financial
25 services. Our results support our hypothesis about the effectiveness of investigation relative
26 to an apology and explanation. Customers attribute to the bank's competencies when
27 launching an investigation and building character-competence-based trust.
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45 Customers have reported that when they experience congruence-based trust
46 violations, they attribute investigation to a more effective trust recovery action than an
47 apology. Congruence-based trust in financial services is determined when banking
48 institutions keep their customers happy and act according to their concerns and values (Moin
49 *et al.*, 2021). Service failure can involve economic (e.g., money, time) and social (e.g., status,
50 esteem) loss (Smith *et al.*, 1999). In contrast, the latter suits our context of congruence-based
51 service failure and trust recovery. By launching an investigation, service-providers attempt to
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3 explore the root cause of the problem and ensure rectification, rebuilding the foundation of
4 mutual trust via shared values. This finding is consistent with the congruity literature, where
5 the congruence between the values of customers and a brand results in positive outcomes,
6 such as satisfaction, loyalty, and belonging to the organization (Gillespie and Siebert, 2018).
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12 In contrast, we could not find significant evidence of restoring congruence-based trust
13 in financial services. It might happen due to insufficient explanation given by the complaint
14 handler of the serving institution to make sense of the negative event among the customers,
15 like why the congruence was damaged and what steps the serving bank will take to restore
16 such damaged trust. Regarding congruence, customers are expected to have poor values for
17 accepting an apology or explanation. Casado et al. (2011) argue that high values require low
18 apologies and explanations. Hence, our results prove that launching an investigation is
19 customers' only effective recovery tactic when value congruency becomes low due to service
20 failure.
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33 Interestingly, our results provide reverse evidence for the proposed hypothesis
34 regarding communication-based trust recovery, describing explanation and investigation as
35 less effective than an apology. This reverse effect remains consistent with (Brühl *et al.*, 2018)
36 findings revealing apology compared to refusal and excuse as the most effective tactic for
37 repairing organizational integrity-based trust. The rationale behind this effect might be banks'
38 failure to communicate information about implementing a new policy or changes in service
39 procedures. Here customers seem to have priory communication about new policy
40 implementation of changes in charges enabling customers to attribute explanations as a way
41 of poor efforts to recover trust. The second communication phase starts with customers'
42 interaction with complaining handlers while reporting a service failure. Here, an apology
43 acknowledges the problem and responsibility, indicating regret for the trust violation (Casado
44 *et al.*, 2011; Davidow, 2003; Kim *et al.*, 2004). Thus, customers develop their understanding
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3 of the problem and ascribe responsibility to an institution, and even offering investigation
4 improves communication-based trust.
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8 Customers receiving explanations in response to negative events attribute
9 organizations as more concerned about commitment-based trusty recovery, followed by
10 investigation relative to an apology. When service providers explain the reasons behind the
11 occurrence of a negative event, customers tend to develop a more shared understanding of the
12 event. An explanation is more effective than an apology, as customers remain committed to a
13 service provider. Thus, trust recovery is higher when an explanation is provided, even in
14 severe service failures. While on the other hand, service failure might become complex and
15 require a systematic assessment of the problem; here, the role of investigation appears
16 suitable to find the root cause of the problem and rectification. Due to the inherent switching
17 cost, customers remain committed to the existing serving bank during the investigation
18 process. When the problem is fully resolved, customers' commitment-based trust is restored
19 effectively. This result is consistent with the literature supporting that service recovery can
20 increase customers' perceived service quality, leading to greater loyalty (Komunda and
21 Osarenkhoe, 2012) and consumers' changed perception of switching costs (Lopes and da
22 Silva, 2015).
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42 As a dimension of trust, context can be characterized as the system, policies,
43 regulations, and employee-related concerns in financial services. We found that none of the
44 recovery tactics are effective for context-based trust restoration, indicating that other tactics
45 are required. Regarding employee-related concerns, the bank staff might need to be more
46 serious about listening to the customer's complaints regarding service failure (Komunda and
47 Osarenkhoe, 2012). Similarly, there might be a change in the policy and services of the
48 serving bank that could not be acceptable to the customers, for example, an unexpected
49 increase in service charges.
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3 We have proposed that variability in service failure severity can undermine the
4 effectiveness of trust recovery action because customers may experience different levels of
5 severity, such as low or high. We found mixed results for our proposed moderating
6 hypothesis. First, our results indicate that relative to apology investigation and explanation,
7 both are effective trust recovery tactics for character competence when customers perceive
8 service failure as more severe. Second, the only explanation compared to apology lends
9 significant support for congruence-based trust recovery, despite severe service failure. When
10 service failure is attributed to highly severe damage to trust in terms of congruence, the
11 organization's relatively detailed and logical explanation portrays great concern for
12 customers. By explaining the negative event, organizations struggle to align their values with
13 customers, leading to an increased level of recovered trust. In comparison to a verbal account
14 giving an apology, an explanation of a negative event is expected to be a more effective trust
15 recovery action in the occurrence of a severe service failure. This finding is consistent with
16 (Smith *et al.*, 1999), stating that service providers attempt to recover service by offering
17 customers social resources (e.g., an explanation), evaluating the service failure/recovery
18 encounters depending on the magnitude of failure attributing the organization's effectiveness
19 of recovery efforts.
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42 Third, when customers experience a high level of service failure severity, they need
43 more explanation of the service failure to develop a shared understanding of the event and
44 experience increased effectiveness of recovery action for trust restoration. Rather than an
45 apology, a detailed explanation of the negative event can ensure fruitful dialogue among
46 customers and service-providing employees. Customers are also expected to share the
47 experience of handling complaints and recovering damaged trust in their social circle,
48 indicating their commitment to the same serving institution. This result is consistent with
49 Komunda and Osarenkhoe's (2012) arguments that the success of service recovery is
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contingent on customer expectations to remain committed to the existing serving bank. Fourth, we did not find significant support for the effectiveness of any recovery action on communication and context-based trust restoration. These results indicate the need for more and better communication by the banks about their decisions (i.e., increases in service charges), which the customers may welcome. Our finding contradicts Bachman and Guerrero (2006), arguing that the victims' severity of betrayal is hard to forgive. Finally, the recovery of context-based trust recovery is due to variability in service failure severity. For example, a customer may need something other than an apology, explanation, or investigation during a high level of service failure severity.

6.1 Theoretical Implications

This study contributes in several ways to the extant literature on trust recovery. First, numerous authors have studied trust as single dimensional construct (e.g., Ennew *et al.*, 2011; Ennew and Sekhon, 2007; Fuoli *et al.*, 2017; Xie and Peng, 2009), while trustworthiness, which is close to trusting (Bozic, 2017) owing three dimensions including integrity, benevolence, and ability (Mayer *et al.*, 1995). Combining these two notions, Xie and Peng (2009) have used integrity, benevolence, and ability as determinants of trust. This study fills the knowledge gap regarding the multidimensionality of trust in financial services. We have extended the existing literature on trust recovery by providing a broader and multidimensional perspective of trust in financial services than previous measures.

Second, our results demonstrate the cross-cultural validity of the newly developed measure of trust and nomological validity, exceptionally with a weak and negative correlation between character competence and communication. In this way, we have advanced the robustness of existing studies (e.g., Bozic, 2017; Moin *et al.*, 2021) on trust recovery, specifically in financial services. Third, most studies have focused on organizational trust (Bachmann *et al.*, 2015; Brühl *et al.*, 2018; Ennew and Sekhon, 2007; Fuoli *et al.*, 2017;

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3 Gillespie and Siebert, 2018; Xie and Peng, 2009). This study has contributed to the literature
4 on customer trust in financial services, particularly apart from organizational trust, and with
5 the evidence of empirical testation. Fourth, scholars have employed different tactics such as
6 explanations, apologies, compensation in failed service recovery (Lewis and Spyropoulos,
7 2001; Varela-Neira *et al.*, 2010), response, denial apology, and explanation in organizational
8 trust repair (Bansal and Zahedi, 2015; Fuoli *et al.*, 2017) apology, refusal, excuse,
9 compensation, in recovering competence and integrity-based trust (Brühl *et al.*, 2018; Cui *et*
10 *al.*, 2018b; Kim *et al.*, 2006). This study explored the overlooked stepwise effectiveness of
11 three recovery tactics (i.e., apology, explanation, and investigation) on trust in financial
12 services. The explanation has been proved empirically more effective than an apology, and,
13 importantly, the investigation found the ultimate remedy when the other two are ineffective.
14 Finally, Utz et al. (2009) argued that trust restoration is a complex process entailing tension
15 and requires balanced approaches. In addition to this notion, service failure severity has been
16 studied as a determinant of failed service recovery (e.g., Dirks *et al.*, 2011; Tomlinson and
17 Mryer, 2009). This study has answered how the effectiveness of trust recovery tactics
18 depends upon the severity of service failure. This study conceptualizes the effectiveness of
19 trust recovery tactics based on the perceived severity of service failure as a boundary
20 condition within the trust recovery context.

21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 **6.2 Practical implications**

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47 The results of our study provide important implications for the management of
48 banking institutions. First, restoring damaged trust after a service failure depends on an
49 effective and efficient recovery process. In banking, customers require complaints to be
50 handled based on their expectations (Komunda and Osarenkhoe, 2012), while (Cambra-Fierro
51 *et al.*, 2013) claim that service failure severity is inversely proportional to satisfaction with
52 service recovery. In line with this notion, we advise bank managers to understand the
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3 customers' problems and handle them following their expectations to ensure a successful trust
4 recovery. In this way, customers will be satisfied with the bank's complaint handling and
5 remain committed to a similar bank's services. On the other hand, banks will retain their
6 customers, avoiding customer loss by switching behavior due to dissatisfied trust recovery.
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12 Second, when management launches an investigation to explore the root cause of
13 service failure, detecting mistakes and/or errors can enable management to improve the
14 service delivery process. It will indicate the organization's effort to "do it right the first time"
15 at the cost of trust while correcting service faults (Lopes and da Silva, 2015). Detecting and
16 rectifying mistakes not only allow banks to control the reoccurrence of such negative events
17 and ensure stability in service delivery but also saves from bearing financial losses
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26 Third, trust recovery is a complex process involving several steps (Bozic and
27 Kuppelwieser, 2019). Furthermore, when customers experience service failure, they complain
28 and expect the serving banking organization to put in reasonable recovery efforts (Casado *et*
29 *al.*, 2011). In this regard, managers can develop an effective trust recovery mechanism in
30 terms of organizational efforts, for example, offering an apology at an initial stage, explaining
31 the event, and launching an investigation as a last resort. It will enable customers to
32 understand the organization's efforts going in the right direction (Cambra-Fierro *et al.*, 2013).
33 This mechanism will help the banking institutions devise a plan following a negative event
34 and the way forward to resolve it.
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47 Fourth, La and Choi (2012) suggest that inappropriate recovery efforts may drive
48 competition for service-providing institutions, while effective and successful recovery often
49 creates a recovery paradox. In this regard, managers should put great effort into the trust
50 restoration process for some fruitful outcomes. For example, banking representatives may
51 focus on good customer recovery action by stimulating positive word of mouth to retain and
52 attract potential customers. It will allow banking institutions to take a competitive advantage
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3 over an institution that serves poorly, is incompetent in handling service failure complaints,
4 and is subsequently less trustworthy.
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8 Finally, comparing apology and explanation needs to go further; the level of service
9 failure severity is also important. Service failure severity differs in phase (Singhal *et al.*,
10 2013), and how the trust was damaged becomes critical to deciding which recovery strategy
11 to implement (Cui *et al.*, 2018a). In this regard, managers should analyze the phase of the
12 service provision process and how trust has been damaged. Understanding will help
13 managers decide when and which trust recovery action to apply. For example, they may offer
14 an apology for a low-severity service failure, an explanation for a medium, and an
15 investigation for high severity service failure to restore customers' trust in financial service.
16 The trust recovery process can be applied sequentially, like offering an apology, explanation,
17 and investigation concerning effectiveness and required outcomes.
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30 **7. Limitations and Future Research**

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32 Like others, this study is not free from some limitations. First, this study focused on
33 the comparative impact of trust recovery tactics (e.g., apology, explanation, and
34 investigation) on trust dimensions. However, it did not specify the interactive effects of
35 parsimony. It could be a potential direction for future research to explore the interactive
36 effects of different recovery actions on trust, as (Guchait *et al.*, 2019) explored the combined
37 effect of apology and compensation on trust restoration. Second, we explicitly asked the
38 participants to rate trust in financial services of their particular relevance, for example,
39 incorrectly debiting or crediting an account (Jones and Farquhar, 2007). However, there
40 might be other causes of service failure, such as machinery, infrastructure, procedural, and
41 informational (Jones and Farquhar, 2007; Kamboj *et al.*, 2021; Singhal *et al.*, 2013). As
42 mentioned previously, the implications of our service failure context cannot be generalizable
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3 to other service failure contexts. This concern provides an important direction for scholars to
4 address in future research.
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8 Third, scholars have theorized that trust depends upon peoples' disposition of trust by
9 an individual's stable personality trait as a willingness to trust (McKnight *et al.*, 1998). Trust
10 disposition could serve as a precursor in the trust recovery process, indicating customers'
11 willingness to attribute recovery actions effective for trust restoration. Thus, future
12 investigations should examine whether distortion of trust toward one service provider (e.g.,
13 bank) influences consumers' trust in other service providers in the same industry. Moreover,
14 Bozic and Kuppelwieser's (2019) recommendation to focus more on the trustor and not on the
15 trustee and Tsotsou's (2008) proposed typology of financial services consumers; we advise
16 researchers to examine how the various segments of consumers (e.g., traditional, conformists,
17 and "gamblers") react to the different trust recovery tactics. Tsotsou's (2008) typology is
18 based on consumers' perceived risk, effort, and involvement with financial services
19 qualifying further investigation of service failures and trusts recovery contexts.
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35 Customer experience is a significant factor in trust formation toward the service
36 provider (Choi and La, 2013; Thaichon *et al.*, 2014). Customers with past good/bad
37 experiences with the service provider might evaluate trust recovery actions differently. It
38 could be a potential moderator to be incorporated in future studies to evaluate the
39 effectiveness of different recovery actions on trust. Furthermore, de Matos *et al.* (2013)
40 suggest that customers with relationship time or perceived switching costs might continue
41 business with the same serving bank even if the service fails. Thus, relationship time,
42 perceived switching costs, and available alternate options might mitigate the conditional
43 effect of service failure on recovery actions and trust restoration. Hence, these variables are
44 expected to play a role in double moderation in future trust recovery studies. Moreover, our
45 results do not support the context-based recovery of trust in financial services. Hence,
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3 scholars should explore other recovery tactics effective for context-based trust restoration,
4 such as policies and regulations, financial systems, employee professionalism in a service
5 failure, trust demolition, and restoration process.
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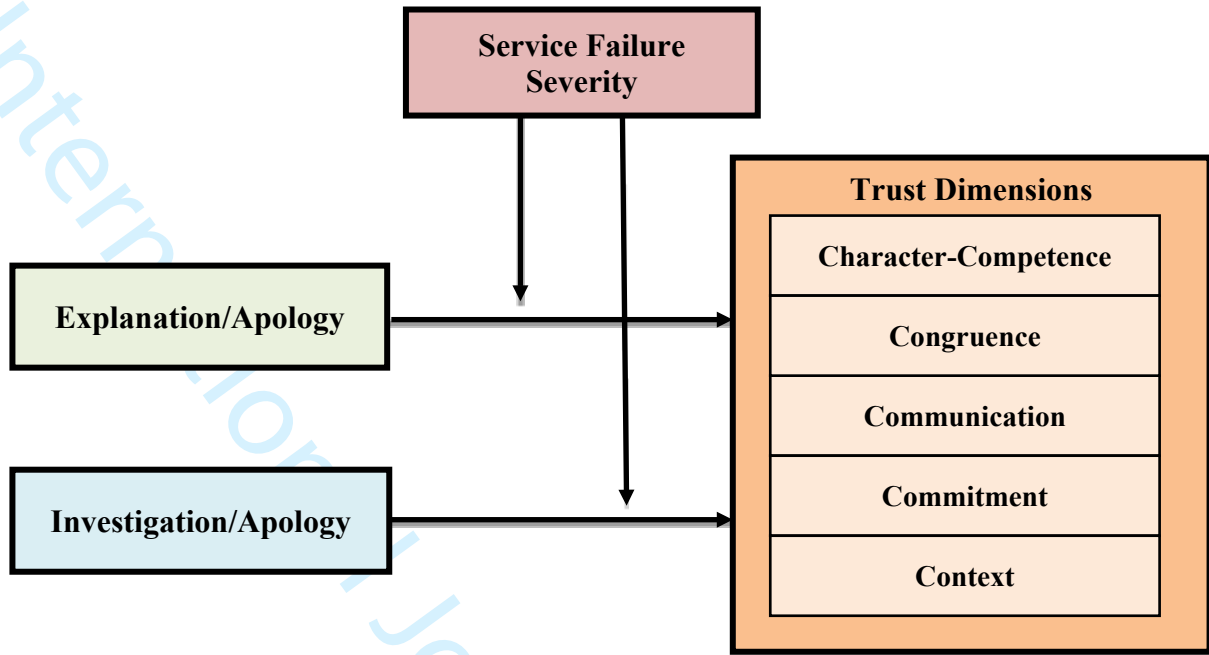


Fig. 1. Conceptual model of recovery tactics' effects on trust dimensions

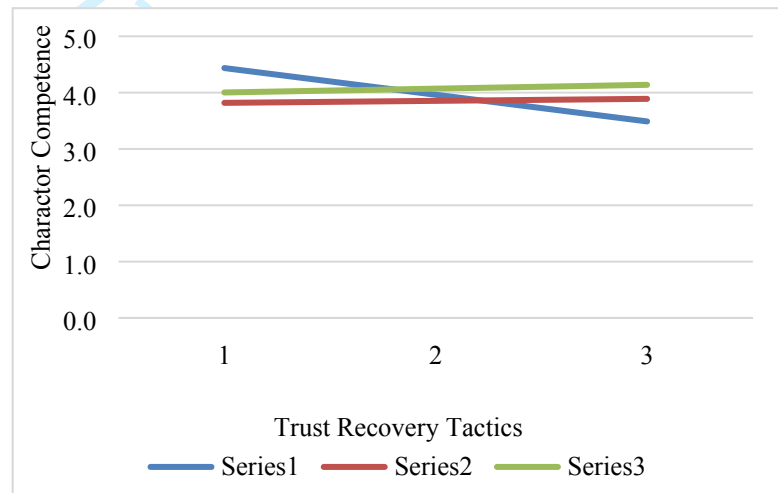


Fig. 2. Impact of trust recovery tactics on character-competence under service failure severity

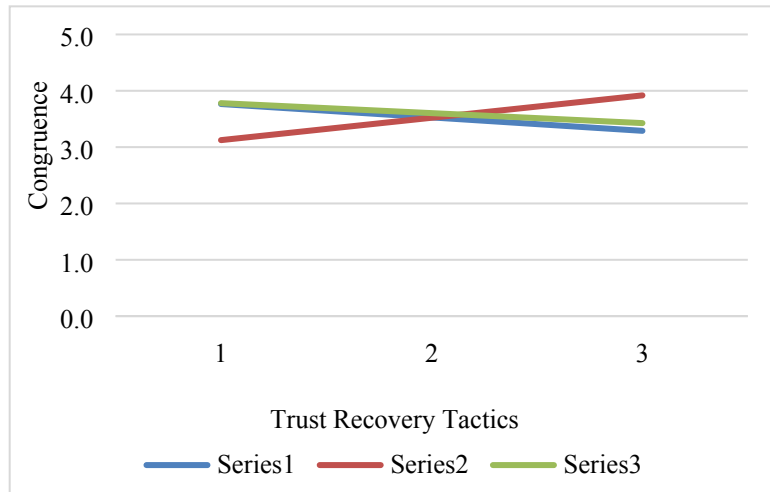


Fig. 3. Impact of trust recovery tactics on congruence under service failure severity

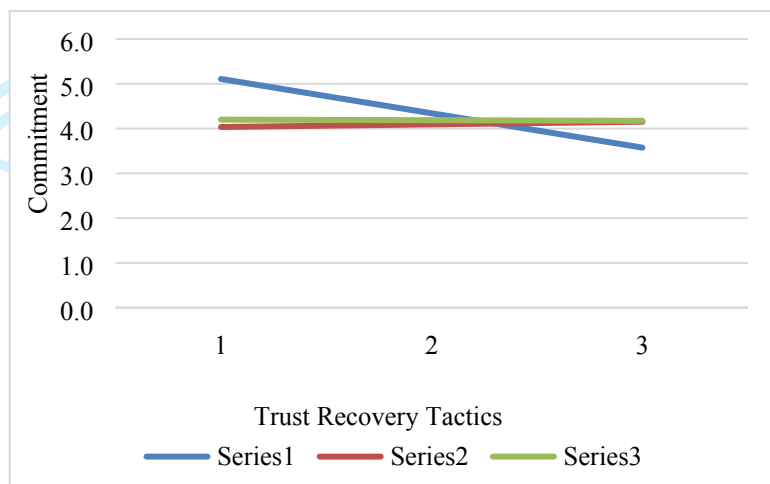


Fig. 4. Impact of trust recovery tactics on commitment under service failure severity

Table 1
Demographic characteristics of participants

<i>Variable</i>	<i>Category</i>	<i>Frequency</i>	<i>Percentage</i>
Gender	Male	245	61
	Female	157	39
Age	≤25 years	273	68
	26-35 years	109	27
	≥36 years	20	5
Education	Undergraduate	169	42
	Masters	217	54
	Doctorate	16	4
Period of service usage	≤2 years	153	38
	3-4 years	141	35
	≥5 years	108	27
Frequency of service usage	1 time in a month	85	21
	2 times a month	72	18
	3 times a month	80	20
	4 times a month	165	41

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3 **Table 2**
4 **Factor analysis and measurement model**
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6 <i>Items</i>	7 <i>Constructs</i>	<i>EFA</i>	<i>Item-Total Correlation</i>	<i>CFA</i>	<i>Alpha</i>	<i>CR</i>	<i>AVE</i>
8	Character-Competence				.92	.92	.61
9 Cha1	My bank keeps its word	.76	.56	.75			
10 Cha2	My bank shows high integrity	.80	.56	.72			
11 Cha3	My bank is honest	.79	.64	.81			
12 Cha4	My bank conducts transactions fairly	.56	.67	R			
13 Cha5	My bank is consistent in what it does	.76	.63	.77			
14 Cha6	My bank can be relied upon for honest advice	.55	.68	R			
15 Cha7	My bank shows respect for the customer	.65	.66	.76			
16 Cha8	My bank treats customers fairly	.68	.68	.83			
17 Cha9	My bank is receptive to my needs	.68	.66	.84			
19	Congruence				.90	.93	.69
20 Con1	My bank does whatever it takes to make me happy	.82	.57	.86			
21 Con2	My bank has the same concerns as me	.80	.51	.84			
22 Con3	My bank has the same values as me	.69	.59	.84			
23 Con4	My bank acts as I would	.80	.58	.78			
25	Communication				.92	.93	.81
26 Com1	My bank informs me immediately of any problems	.88	.35	.88			
27 Com2	My bank informs me immediately of new developments	.89	.34	.96			
28 Com3	My bank communicates regularly	.84	.34	.84			
30	Commitment				.93	.93	.69
31 Cmt1	I expect to do more business with my bank in the next few years	.64	.51	.70			
32 Cmt2	I am considering to continue using my bank rather than changing to another bank in the next few years	.75	.56	.77			
33 Cmt3	I am happy about my decision to choose my bank	.47	.58	R			
34 Cmt4	I believe I am doing the right thing in using my bank	.76	.67	.85			
35 Cmt5	Overall, I am satisfied with my decision to use my bank	.76	.71	.87			
36 Cmt6	I say positive things about my bank to other people when asked	.73	.72	.91			
37 Cmt7	I recommend my bank to somebody seeking my advice	.72	.67	.88			
38 Cmt8	I encourage friends and relatives to use my bank	.57	.67	R			
40	Context				.88	.88	.64
41 Cxt1	I am confident that existing policies and regulations protect customers of financial services institutions	.80	.66	.82			
42 Cxt2	I have faith and confidence in the financial system	.73	.65	.88			
43 Cxt3	I generally trust financial institutions to act honestly and ethically	.83	.57	.75			
44 Cxt4	I trust all financial institutions to ensure that their employees are well trained and professional	.64	.53	.74			
49	Service Failure Severity				.94	.94	.80
50 Sev1	How severe do you think this problem is?	.88	.15	.88			
51 Sev2	What level of inconvenience has this problem caused you?	.88	.14	.92			
52 Sev3	What level of stress has this problem caused you?	.89	.13	.90			
53 Sev4	How unfair do you think the situation is?	.89	.10	.89			

54 Note: R=Removed
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Table 3
Fit indices for confirmatory factor analyses

<i>Model</i>	χ^2	<i>DF</i>	<i>CFI</i>	<i>TLI</i>	<i>SRMR</i>	<i>RMSEA</i>	<i>PClose</i>
Six-factor model	590.63	307	0.97	0.96	0.04	0.05	0.71

Note: df = degree of freedom, CFI = comparative fit index, TLI= Tucker-Lewis coefficient, RMSEA = root mean square error of approximation; SRMR = standardized root mean square residual.

Table 4
Correlations and shared variance estimates

	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
1.Character-Competence	.78	.49	.01	.59	.35	.02
2.Congruence	.70***	.83	.00	.36	.36	.03
3.Communication	.11*	-.03	.89	.01	.01	.30
4.Commitment	.77***	.60***	.12*	.83	.47	.04
5.Context	.59***	.60***	.10	.68***	.80	.00
6.Severity	-.14*	-.18**	.55***	-.19***	-.04	.89

Note: Bold values on the diagonal are AVE estimates

Correlations are below, and squared correlations are above the diagonal marked as p < *.05, **.01, ***.001

Table 5
Mean and standard deviation by recovery tactics

<i>Trust Recovery Tactics</i>	<i>Character-Competence</i>		<i>Congruence</i>		<i>Communication</i>		<i>Commitment</i>		<i>Context</i>		<i>Service Failure Severity</i>	
	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>
Apology	3.54	0.91	3.33	1.10	2.45	1.10	3.64	0.93	3.42	1.06	2.88	0.66
Explanation	3.85	0.58	3.50	0.93	2.15	1.00	4.09	0.57	3.59	1.08	2.18	0.42
Investigation	4.01	0.49	3.78	0.71	1.92	0.88	4.20	0.49	3.35	1.18	1.47	0.33

Table 6
Tests of between-subjects effects

<i>Source</i>	<i>Variables</i>	<i>Type III Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>	<i>Partial Eta Squared</i>
Trust Recovery Tactics	Character-Competence	15.35	2	7.67	16.24	.00	.08
	Congruence	13.69	2	6.84	7.93	.00	.04
	Communication	18.72	2	9.36	9.38	.00	.05
	Commitment	23.80	2	11.90	24.65	.00	.11
	Context	4.29	2	2.14	1.75	.17	.01

Table 7
Main effects-Unstandardized coefficients

<i>Variables</i>	<i>Character-Competence</i>	<i>Congruence</i>	<i>Communication</i>	<i>Commitment</i>	<i>Context</i>
	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	3.54	3.33	2.45	3.64	3.42
Apology/Explanation	.31**	.17	-.30*	.45**	.18
Apology/Investigation	.47**	.45**	-.53**	.56**	-.07
R ² (%)	7.5	3.8	4.5	11.00	1.00
F	16.24	7.93	9.38	24.66	1.75

Note: **> 0.01, *> 0.05

Table 8
Results of moderation analysis

<i>Variables</i>	<i>Character-Competence</i>	<i>Congruence</i>	<i>Communication</i>	<i>Commitment</i>	<i>Context</i>
	B (SE)	B (SE)	B (SE)	B (SE)	B (SE)
	<i>LLCI/ULCI</i>	<i>LLCI/ULCI</i>	<i>LLCI/ULCI</i>	<i>LLCI/ULCI</i>	<i>LLCI/ULCI</i>
Constant	5.33 (.26) 4.83/5.83	4.22 (-.36) 3.51/4.92	.48 (.38) -.27/1.22	6.56 (.23) 6.11/7.01	4.57 (.43) 3.72/5.41
Severity	-.63* (.09) -.80/-.46	-.32* (.12) -.55/-.08	.69* (.13) .44/.94	-1.02* (.08) -1.17/-.86	-.41* (.15) -.69/-.12
Explanation* Severity	.67* (.16) .36/.98	.84* (.22) .40/1.28	.40 (.24) -.86/.06	1.09* (.14) .82/1.37	.09 (.27) -.44/.62
Investigation* Severity	.72* (.19) .34/1.09	.08 (.27) -.45/.61	.37 (.28) -.93/.18	.10* (.17) .66/1.332	.59 (.32) -.05/1.22
R ² (%)	5.4	3.4	.8	11.8	.8
F	13.09	7.27	1.66	38.22	1.66

Note: *p<.05

APPENDIX – QUESTIONNAIRE

Part 1:

Each respondent was assigned a random scenario from one of the following options:

Scenario 1: Apology

Imagine, you receive a statement for your credit card account, and you see that you are charged with bigger amounts than appropriate. In your follow up on this matter, the customer service representative first listens to your problem, and then offers you a sincere apology saying, “We are sorry.”

Scenario 2: Explanation

Imagine, you receive a statement for your credit card account, and you see that you are charged with bigger amounts than appropriate. In your follow up on this matter, the customer service representative first listens to your problem, and then state that, “We are not fully sure yet of the root cause of the problem and discusses the next steps and possible solutions of the problem.”

Scenario 3: Launching an investigation

Imagine, you receive a statement for your credit card account, and you see that you are charged with bigger amounts than appropriate. In your follow up on this matter, the customer service representative first listens to your problem, and then shows, “Willingness to investigate what went wrong and why; and ensures you that we will do everything possible to solve the problem.”

Part 2:

Trust in Financial Services (proposed by Moin et al. (2021))

Character-competence

1. My bank keeps its word
2. My bank shows high integrity
3. My bank is honest
4. My bank conducts transactions fairly
5. My bank is consistent in what it does
6. My bank can be relied upon for honest advice
7. My bank shows respect for the customer
8. My bank treats customers fairly
9. My bank is receptive to my needs

Congruence

10. My bank does whatever it takes to make me happy
11. My bank has the same concerns as me
12. My bank has the same values as me
13. My bank acts as I would

Communication

14. My bank informs me immediately of any problems

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3 15. My bank informs me immediately of new developments

4 16. My bank communicates regularly

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7 *Commitment*

8 17. I expect to do more business with my bank in the next few years

9 18. I am considering to continue using my bank rather than changing to another bank in
10 the next few years

11 19. I am happy about my decision to choose my bank

12 20. I believe I am doing the right thing in using my bank

13 21. Overall, I am satisfied with my decision to use my bank

14 22. I say positive things about my bank to other people when asked

15 23. I recommend my bank to somebody seeking my advice

16 24. I encourage friends and relatives to use my bank

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19 *Context*

20 25. I am confident that existing policies and regulations protect customers of financial
21 services institutions

22 26. I have faith and confidence in the financial system

23 27. I generally trust financial institutions to act honestly and ethically

24 28. I trust all financial institutions to ensure that their employees are well trained and
25 professional

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28 *Severity of service failure*

29 1. How severe do you think this problem is?
30 (Not Severe–1 2 3 4 5 6 7–Very Severe)

31 2. What level of inconvenience has this problem caused you?
32 (Not Inconvenient–1 2 3 4 5 6 7–Very Inconvenient)

33 3. What level of stress has this problem caused you?
34 (Not Stressful–1 2 3 4 5 6 7–Very Stressful)

35 4. How unfair do you think the situation is?
36 (Not Unfair–1 2 3 4 5 6 7–Very Unfair)

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