

THE MEDIATING EFFECT OF CUSTOMER SATISFACTION
ON THE RELATIONSHIP BETWEEN SERVICE
RECOVERY PERFORMANCE FACTORS
AND BUSINESS GROWTH AMONG
BANGLADESH GARMENT
MANUFACTURERS.

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Accomplishment of the Requirements for the
Degree of Doctor of Philosophy.

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ABSTRACT

As of late, business growth is being sensed as one of the greatest challenges for Bangladesh garment industry in order to gain competitive advantage in global market because many garment factories have been shutting down since last few years. However, the owners of garment manufacturers are deeming intensely regarding the impact of service recovery phenomenon on the most topical and imperative issue- company business growth. The purpose of this opportune study is twofold; firstly to examine the relationship between influential factors of service recovery performance (SRP) and business growth, secondly to examine the mediating effect of customer satisfaction on relationships between SRP factors and business growth in context of Bangladesh garment industry. Based on literature review, a conceptual model has been developed for a cross-sectional sample survey study. Primary data were collected following simple random sampling method from 354 different garment factories in Bangladesh. The partial least squares path modeling (PLS-SEM) approach was used by Smart PLS 3.2 software for data analysis and necessary hypothesis inferences. The results revealed that most of the SRP factors directly influence company business growth, and customer satisfaction plays mediating role on relationships between some specific SRP factors (top management commitment, role ambiguity, job satisfaction and customer's characteristics) and company business growth. The findings of this research contribute both theoretically and practically, and append the knowledge how garment factories can formulate new strategy and management practice to ensure sustained business growth. Hitherto this is the first study that investigated and established the relationship among SRP factors, business growth and customer satisfaction in context of garment manufacturing industry.

APPROVAL

I certify that I have supervised / read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfillment of the requirements for the degree of Doctor of Philosophy.

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DECLARATION

I hereby declare that the dissertation submitted in fulfilment of the PhD degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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CHAPTER 1

INTRODUCTION

1.1 Overview

This study deems the contemporary issue ‘company business growth’ in context of Bangladesh garment manufacturing industry. Firstly, this study will verify the relationships between service recovery performance (SRP) factors and company business growth. Secondly, it will discuss the connections between customer satisfaction and business growth. Thirdly, this study will explicate the consequences of relationships among SRP factors, customer satisfaction and business growth where customer satisfaction could play mediating role. The construction of this research is configured by five chapters. In the first chapter, it is covered introductory fragments stating the focus of the study and describing the research background, problem statement, objectives and research questions, underpinning theories, significance of the study with constituent explanation, expected contribution to knowledge of this research and a short brief about Bangladesh garment industry. Chapter 2 presents an extensive literature review including all relevant theories, conceptual model and research hypotheses. Following and subjecting to Chapter 2, Chapter 3 includes the research methodology with all detail action plan of this research, also has designated all relevant statistical methods, tools and techniques used in this research. Chapter 4 comprises the data analysis and research findings which describes and presents in the most propitious way. The last one to conclude, Chapter 5 draws the conclusive discussion based on the results of data analysis and adornments the endeavor by explaining the results to the different pragmatic

implications. In this chapter, it also presents valuable recommendations and suggestions designed particularly for Bangladesh garment industry, few remarkable limitations of the study, few valuable guidelines for future research directions, and an executive summary in conclusion.

1.2 Background of Bangladesh Garment Industry

1.2.1 History

Reaz Garments Ltd. started garment making (shirts item) in 1973 and did export first in 1978. Then more competently, Desh Garments Ltd., the first hundred percent export-oriented company was established in 1979 collaborated with the South Korean company, they started with few operators trained in South Korea and grown other operators training by that first batch trained operators consequently. In next, Youngones Corporation Ltd. (South Korean company) was established in 1980 as the joint-venture partnership with Bangladeshi local citizen, they brought the dynamic flow in Bangladesh garment industry generating positive interest in people's mind resulting to increase total number of garment factories in different areas across the country. With the rapid flow of business potentiality, total number of garment factories reached more than 500 within 1985. Although first level factories started with woven product (shirts, jacket), latter knit product (t-shirt) entered into Bangladesh garment industry which was the main reason of soaring up in world apparel market; in epoch of 1990 industry achieved more than 20% growth and total number of garment factories turned to 2,900 at the end of 1999. Multi-fiber Arrangement (MFA) accelerated Bangladesh garment business and established the position in international apparel market, also GSP facility by European union was another great support behind the successful establishment. Bangladesh demonstrated their

capability facing fierce challenges- MFA phasing out in 2004 and the global recessions in 2009. Historically, the world largest second position in garment export business was achieved in 2010, and workplace safety declaration was in 2013 which are the milestones of Bangladesh garment industry.

1.2.2 Bangladesh Garment Industry- at a Glance

Total garment factory: 4373.

Total worker: 4 million

Total employment: 4.5 million

Product Line: Woven, Knit, Sweater, Home textile.

Major export to counties: USA, UK, Germany, Spain, Italy, Sweden, France, Canada, Russia, India.

Major buyer/brands: H&M, C&A, Zara, Walmart, Gap, Best Seller, Levi's, Nike, Puma, Uniquelo, Adidas, Wrangler, CK, JC Penny, American Eagle, Aldi, Lidle, etc.

Material import from – China, Pakistan, India, Turkey, Indonesia, Taiwan.

Total export: 24.81 billion (2019-2020).

Location: Garment factories in Bangladesh are allocated in different zones- Dhaka, Chittagong, Narayangonj, Ashulia, Savar, Gazipur, Valuka and others. Map location of Bangladesh garment industry is shown in Appendix-A.

Key association: The Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

1.2.3 Business Growth Scenario: Bangladesh Garment Industry

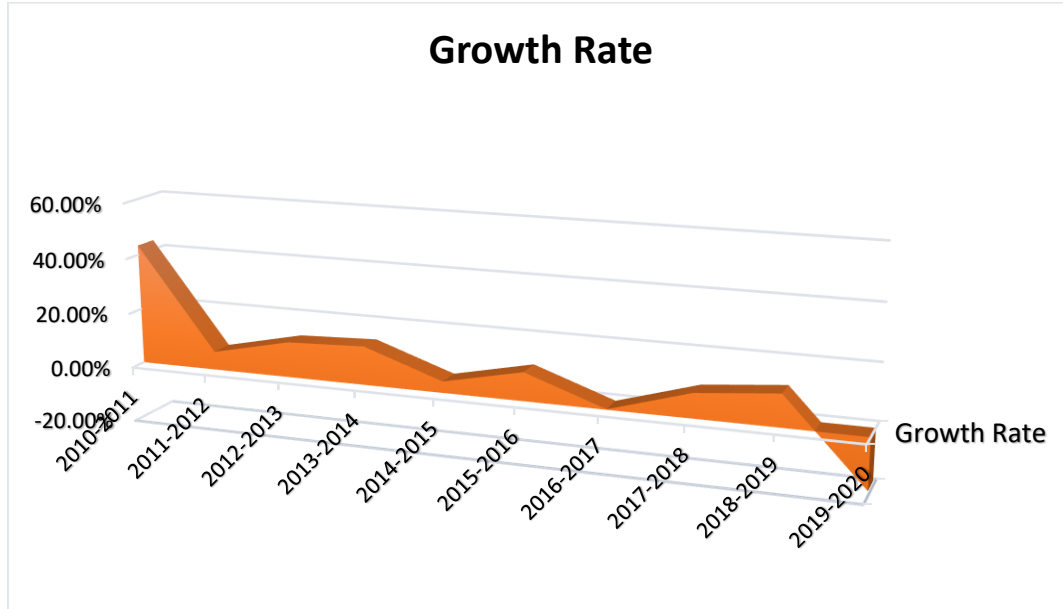


Figure 1: Bangladesh Apparel Export Growth Tend.

Data Source: BGMEA Export Data, February 2021.

In last 10 years, the highest growth is observed in the year 2010-2011, after that, overall shape of apparel business growth seems quite craggy and inconsistent. Although tumbling down reason of 2019-2020 was Covid-19 pandemic situation, but remarkably wretched down spots are discernible at year 2012, 2015 and 2017 due to other obvious strategic reasons.

March 2020, export earnings
declined by 20.14% to \$2.25mn

April 2020, export earnings
declined by 85.25% to \$375mn

Bangladesh earned \$24.81bn,
down by 17.64% in Jan-Nov
period of 2020

Figure 2: Bangladesh Export Growth Scenario of the Year 2020.

Source: Adopted from Business Report, Textile Today (Bangladesh), December, 2020.

Further to review the latest data analysis report by BGMEA and EPB, business growth has fallen remarkably since 2019 in every division of the industry- knit, woven, sweater and home textile. It is important to mention that, among the rivals the most emerging competitor Vietnam already has achieved 2.2% apparel export growth than last year. No new entrant remarkably has drawn buyers' attention recently in global market, but Vietnam is very close in export to Bangladesh, and anticipating that Tunisia, Morocco and South Africa can growth more in next few years. Intensity of competition among existing rivals recently has been reshaped due to changing some competitive issues which are; labor wage increases in Bangladesh, new environmental policy implementation in China garment industry, and recently generalized preference system (GSP) facility achieved by Pakistan.

1.3 Research Background

It is overt that apparel sector is the chief contributor accounts for 83% of the total exports (FY2019-20) and contributes more than 15 percent to GDP (Export Promotion Bureau of Bangladesh (EPB) report, 2021). However, Bangladesh could meet only 6.4 percent of total world apparel demand whereas China meets 31.3 percent of total apparel demand (Hossain, 2019), which deems that still long way to go. After fire incident in Tazrin Fashion (2012) and Rana Plaza collapse (2013) Bangladesh had to confront a big challenge of image. Along with fierce global competition among existing and upcoming countries, the daunting challenges of Bangladesh garment industry are: production cost increase owing to material cost increase, labor wage rise, energy power cost increase, currency devaluation, and customer (buyer) dissatisfaction owing to delivery and quality service failure that causes of lower business growth and low profitability in business. To achieve overall industry growth rate, the most imperative issue is to achieve individual company business growth. Therefore, the issue is elevated incorporating with the daunting challenge of individual garment factory business growth in Bangladesh.

However, reviewing recent data analysis report of EPB 2021, business growth of Bangladesh garment export business has been plunging down since 2019, total apparel export value is calculated \$ 24.81 billion for 2020 (from January to November period), \$ 30.13 billion for 2019 and \$ 32.92 billion in the same period of 2018. Although the pivotal reasons of negative business growth beyond the expectation has been attributed to Covid-19 situation and labor wage increase in 2018, but there are also some other substantial reasons regarding strategic management issues that always been unheeded but hitting hard the industry. In a press conference held on 14th October 2019 in capital city

Dhaka, the leaders of National Garment Labor Federation (Bangladesh) expressed that, not only for wage increase, inefficiency of management decision and lack of management standardization are also important causes of such wretched down business growth. Furthermore, many economic researches strappingly suggest to paying attention on the development of management capacity and management system standardization in Bangladesh garment industry which has terrific impact on garment productivity augmentation and quality as well (Woodruff, 2014).

To overcome existing daunting challenges and obstacles, garment factories need to develop new strategy by reshaping their business model (Jahan et al., 2018). Taking into mind the fierce global completion and upcoming frightening challenges, Bangladesh needs to dive for investigating new monumental successive factors to sustain in the competitive global market. The new business model is configured by Hill and Jones (2016) with the detail guideline on; customer selection, product differentiation, value creation at product, low-cost, organize activities, resource configuration, sustained high level profitability, overall business grows, acquire and keep customers, and goods delivery and service to market. Over the time being, these factors are not performing merely as the strongest play-actor in context to the global competition war, still it needs something more about service-oriented strategy in any business. However, Greer et al. (2015) cited spectacularly that, “A service perspective can and is being used by all types of organizations, including manufacturing as well as service, and that it facilitates mutual value creation”. Therefore, service is now newly concern for garment manufacturing companies (exporter) who playing the role of service provider to the foreign customers (buyers) in context of B2B business model, where B2B customers often becomes

dissatisfied owing to service problem that leads to churn causes of profitability reduction for the company (Hochstein et al., 2020). Most of the garment factories in Bangladesh are selling their product to the foreign buyers (importers), and buyers sell those products to the ultimate customers at their retail shops mostly in USA and European countries. If exporters (garment factory) fail to deliver the correct quality product within required time to reaching to importers' stores, then there must be a catastrophe in retail sales programme resulting to immense financial loss and organizational effort by the brands.

In a joint study conducted on Bangladesh and China, constituent recommendations are given to improve the industrial competitive advantage through human resource exploitation strategy and innovation, improving product and reducing the lead time (Hossain et al., 2017). Further to review, technological innovation, product diversification and lead time are the considering parts of service matter to the buyers who need these supports strongly in order to enhance their business in competitive global market.

However, becoming service recovery unsuccessful it creates negative image of service quality performance resulting to negative words-of-mouth and repurchase intentions (Hogreve, Bilstein, and Hoerner, 2019). Service recovery strategies remain the only tools that can be used to redeem the customers in service failure situations, and the effective implementations of the justice theory components will positively affect customer satisfaction and loyalty (Abbas et al., 2015; Guchait, 2019). Other study reported that perceived job performance and perceived organizational support is directly related to international customer satisfaction (Biswakarma, 2016). Research analysis result shows teamwork, employee empowerment and rewards could augment service

recovery performance to promote customer satisfaction (Pai and Yeh, 2017), in fact, employee engagement is more important to generate customer loyalty (Mohammad, 2020). Further in another recent study on airline industry, Etemad-Sajadi and Bohrer (2019) examined that service recovery process has significant impact on customer satisfaction and loyalty. In a study on hotel industry, empirically proved that service recovery has significant impact on customer affection (Daskin and Kasim, 2016). Also, other previous study on hospitality industry, reported that service recovery dimensions are significantly related to customer satisfaction (Diaz et al., 2017) and have a positive relationship between customer satisfaction and customer loyalty (Buttle and Burton, 2001; Cheng et al., 2019). Another recent study was conducted on food industry, empirically examined that food safety mediates the effect of a company's service recovery on customer loyalty (Bouranta, Psomas, and Vouzas, 2019). In regards of relationship between customer satisfaction, customer loyalty and behavioral intention, a study conducted on co-created retail industry which asserted that justice dimensions of service recovery is an important concern to grow relationship with customers that develop loyalty among customers, leading to growth and increase reputation of the organization (Rashid et al., 2014). In consequence, loyal customer plays a vital role in marketing for company through their positive behavioral intention word-of-mouth (Jung and Seock, 2017). Recent study on education industry in Indonesia revealed that customer satisfaction has positive significant influence on word of mouth- increasing student satisfaction will impact on their loyalty and word of mouth activities (Fitriani and Wahyuni, 2018), thus it is also established that customer loyalty is regarded as an intangible asset for any service company which is significantly constituent to sustain in

the competitive business market (Yang and Chao, 2017). Another recent study conducted on B2B (business-to-business) service sector, examined the positive relationship of service quality and customer satisfaction, and customer loyalty (Lee and Kang, 2019). Service failure in consequence, is very fatal which leads to declining customer satisfaction, moving customers to competitors, spreading negative words about the company (Sihombing, 2007), finally, aggrieving the customers which end result is profit decline (Del Rio-Lanza et al., 2009; Nikbin et al., 2010).

Research revealed that perceived customer satisfaction leads to generating trust and loyalty by which it plays a significant role on profitability as examined in Malaysia banking industry (Osman et al., 2016). Online and offline service failures are inevitable incidents in the service industry which have negative impact on profitability (Rai and Ozuem, 2018). Other recent study on Indonesian companies reported that company should focus greatly on a customer satisfaction as it can improve the company's financial performance through customer loyalty (Tarigan and Hatane, 2019).

Porter (1997) pointed out service improvements as a familiar form existing rivalry competition, and support service is preferred in competition other than price. As service recovery already has been recognized as business influential through customer satisfaction and loyalty (Mostert et al., 2009) in airline industry, it can justify for other industry how service recovery performance can ensure sustained business growth.

As previous study examined and showed that service quality is a key factor in differentiating service products in the service sector (Gil, Hudson and Quintana, 2011), there is a need of further research to examining how service recovery performance can persuade business growth in other manufacturing sector. On the other hand, most of the

researchers preferred the determinants or antecedents of service recovery performance considering similar basic variables to the extent of specific research problem were regarded the determinants of service recovery performance (Costa, 2007). Most of the previous studies were accomplished based on service industry; bank, hospital, tourism, hotel, airline, telecommunication, food, on-line shopping, and recently in education industry which shown relationships between service recovery antecedents and service recovery performance based on service providing company (Boshoff and Allen, 2000; Yavas et al., 2003, Mahyoub, Farea, and Bardai, 2020) , but hitherto there is no such consensus regarding SRP impact in garment manufacturing industry.

In view of above therefore, paying attention to the inquisitive matters ‘keep customers’ and ‘service’, there is significant scope of research in context of garment manufacturing industry to the extent at which SRP factors could be a new role player for business growth through customer satisfaction.

1.4 The Statement of the Problem

Stiff and fierce competition has created consternation within Bangladesh garment industry, overt that more than 1200 garment factories had to shut down in last five years (source: Textile Today, Bangladesh, September 2019). Business growth has been declining conspicuously; 17.64% in 2020 and 6.67% declined in 2019 (EPB Data Report, 2021) and the question has been strappingly raised- how will Bangladesh achieve the master target-export \$50 billion by 2021 with such negative growth rate? On the other hand, it is salient that Bangladeshi garments’ prices are lessening down year by year, overall price has been down by 1.61% in the last 4 years and Bangladeshi garment

factories are receiving some of the lowest prices in the world (source: Textile Today, July 2019). The company owners concur that cost leadership strategy is no more regarded for Bangladesh garments industry (Uddin, 2014). Therefore, strategic managers of apparel manufacturing companies are desperately looking for new functional strategy and strategic decision to achieve sustained business growth. Also, they are really needed for an immaculate guideline acquiring new knowledge regarding strategic problem of company business growth. However, Hambrick and Fredrickson (2005) argued that strategy should be not only for low-cost providing but also to provide excellent customer service. This question represents the element of strategies and enforced to think about customer service and customer satisfaction in garment export business. Unfortunately, two major issues; business growth and customer satisfaction are not indicated by proper articulation in following two major underpinning theories: Service-Profit chain theory (Heskett et al., 1994, 2008), and in service recovery performance (SRP) model (Boshoff and Allen, 2000). The most of the studies to date on SRP, revealed the casual relationship between the antecedents and SRP with two common outcome variables; intention to resign and job satisfaction (Boshoff and Allen, 2000; Piaralal et al., 2015). But the question comes vividly what is after that with the issue of business growth? On the other hand, the Service-Profit Chain theory exhibits the sequential relationship among profitability, customer loyalty, and employee satisfaction, loyalty and productivity (Heskett et al., 1994, 2008), but nothing articulated about business growth. Considering the limitations of these two existing theories, this research identified the major problem that, although there is comprehensive relationship between service quality and customer satisfaction but no indication on how service quality can be improved to enhance