Maintaining Customer Loyalty and Satisfaction in Service Recovery through Javanese Philosophy

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Abstract

The concept of service failure and service recovery have been largely addressed in the literature. The aim of this study is to examine the relationship between perceived justice, customer engagement, customer satisfaction, and customer loyalty in the context of service recovery. This study also considers the moderating role of apology and *diuwongke*, a Javanese-Indonesian philosophy for treating others with dignity and respect, as a condition that can strengthen or weaken the influence of the variables. The population of this study is customers of three large state-owned banks in two provinces in Indonesia, with the number of samples of 430 respondents, chosen using purposive sampling technique. The data is collected through online survey with Google Forms and analyzed using SEM-PLS with PLSpredict. The findings indicate that perceived justice has a positive influence on customer engagement, while customer engagement positively influences customer satisfaction and loyalty. Customer satisfaction is found to mediate the relationship between customer engagement and customer loyalty. Furthermore, this finding prove that apology plays a moderating role in the relationship between perceived justice and customer satisfaction, such that the relationship is stronger when apology is high. Finally, *diuwongke* is also found to moderate the influence of customer engagement on customer satisfaction and customer loyalty.

Introduction

In running a service-based business, firms are often faced with the condition in which the services they provide to consumers are perceived as not optimal, bad, and even considered to have failed to provide excellent service. These service failures occur in customer experience when they interact with or use the services offered by the business. The existence of service failure can have a negative impact on the firm (Shin et al., 2018; Alzoubi et al., 2020), since this can make them lose customers when it is not managed properly. However, it is difficult for firms or service providers to avoid failure in their service delivery process (Chen & Kim, 2019). Therefore, to overcome this, firms need to adopt a strategy for their service improvement, or what is known as service recovery.

Chang & Hung (2018) mentioned that service recovery has an important role as a tool to handle customer dissatisfaction which avoid complaints to the service providers. Service recovery is an action offered by service providers to respond to service failures (Gohary et al., 2016; Shin et al., 2018). There are various service recovery strategies that have been carried out by firms, such as solving problems, providing compensation, and showing empathy (Al-Dmour et al., 2021). The firm's response to service failures can have a negative impact on customer relationship, but when it is done properly, it will reduce or eliminate the negative influence of service failures (Chen & Kim, 2019).

When firms can provide the right service recovery and this is accepted by customers, it will affect the level of satisfaction, intention to recommend services, company image, to customer loyalty (Gohary et al., 2016; Alzoubi et al., 2020). In Indonesia, service recovery is one of the issues that are faced by firms. As an archipelago country, the diversity of the ethnic groups, customs, traditions, and characteristics of the community becomes a significant matter to be considered by firms when providing their services. One of the industries that currently grows and becomes valuable player in the Indonesian's economy is the banking industry, which acts as financial service provider for the community. According to Statista (2022), there are 107 commercial banks and over 32.5 thousand bank offices spread across the country. The employees in this industry strive to offer excellent services in their job, as they have to serve different customers with different cultural backgrounds or characteristics at times due to the diversity of the country itself. One of the ways to successfully manage to provide services is by adopting *diuwongke*, a nascent concept from the Javanese-Indonesian philosophy of treating others with dignity and respect (Rahmadani & Schaufeli, 2022). Although the customers for banking industry in Indonesia comes from different backgrounds and cultures, they all want to be treated well, treated humanely, and respected, including when they receive services from the bank, thus *diuwongke* matters in this context.

Customer loyalty, which becomes the final consequence of service recovery justice in this study, is seen as one of the intangible assets for firms especially those in the service business. This is because customer loyalty is proven to increase firm profitability (Chang & Hung, 2018; Cheng et al., 2019). Furthermore, customer satisfaction is also significant to be studied, considering that Jung & Seock (2017) found that satisfaction is a determinant of a long-term relationship of customers and firms, especially after firms implement their service recovery strategies. In addition to customer satisfaction and loyalty, another construct examined in this study is customer engagement. It is

currently one of the main determinants of firm's competitive advantage, contributing to the growth of profitability, revenue, and customer-firm relationships (Pansari & Kumar, 2017; Gligor & Bozkurt, 2020). This can occur since customers engagement on brands, firms, or other customers can lead them to perceive satisfaction and loyalty (Rather, 2019; Abror et al., 2019; Thakur, 2019).

This study uses three dimensions of justice, namely distributive, procedural, and interactional justice as one of the service recovery strategies. Consumers' perceptions of the justice they receive are seen as the most basic variables in the service recovery process (Kim & Chen, 2019). In addition, Kurdi et al. (2020) stated that customers can evaluate whether they have received justice from service recovery, and this will affect their satisfaction and engagement with the firms. Furthermore, as a way to improve and maintain customer relationships after the service recovery process, this study employs one of the Javanese-Indonesian philosophies, namely *diuwongke* to explain the connection between customer engagement, loyalty, and satisfaction. The concept of *diuwongke* means to treat others with dignity and respect (Rahmadani & Schaufeli, 2022).

Based on these explanations, this study contributes to the theoretical development in the context of service marketing by providing a more comprehensive understanding of the factors that can assist firms to improve and maintain relationships with their customers. Specifically, the objective of this study is to determine the influence of perceived justice on customer engagement, and examine its impact on customer satisfaction and loyalty after service recovery process. This study also considers the role of apology in moderating the relationship between perceived justice and customer engagement. So far, a number of research have tended to focus on forgiveness from customers' side (Babin et al., 2021; Muhammad & Gul-E-Rana, 2020; Wei et al., 2022), neglecting the apology from staff or firms (Radu et al., 2019; Harrisson-Walker, 2019).

Finally, this study fills the gap from prior research by considering the *diuwongke* construct, as well as using social exchange theory (SET) as the grand theory to explain the influence between variables in the study. SET, along with *diuwongke* construct, have been widely used in the field of HRM (Rahmadani & Schaufeli, 2022; Muafi, 2022; de Souza Meira & Hancer, 2021; Fan et al., 2021), yet both have been underexplored in marketing, particularly in customer services.

Literature Review

Social Exchange Theory

According to social exchange theory, other people's adaptive behaviors and interdependent interactions lead to obligations (Emerson, 1976; Blau, 1964). Cropanzano and Mitchell (2005) claimed that although it will only occur under specific conditions, this interdependent relation has the potential to result in excellent relationships. A shared commitment with loyalty and trust will eventually evolve, according to the fundamental tenet of SET. The two existent parties must abide by the exchange's rules or norms in order to achieve this (Emerson, 1976 p. 351). SET has been mostly used in HRM research, particularly in employee-organization relationship (Meira & Hancer, 2021; Sungu et al., 2019). In this study, perceived justice, apology,

and the feeling of being *diuwongke* perceived by customers from the service provider will lead them to postulate positive behavior, namely customer engagement, satisfaction, and loyalty.

Perceived Justice

The concept of perceived justice is generally used to assess whether an exchange is fair by comparing the inputs given and the outcomes obtained (Ding & Lii, 2016; Chen & Kim, 2019). There are three dimensions in perceived justice: distributive, procedural, and interactional justice. In the service recovery context, distributive justice is related to the consumers' evaluation regarding the solutions offered by firms in responding to service failure that occurs (Bortoli & Pissutti, 2017; Shin et al., 2018; Latif & Uslu, 2019). Furthermore, procedural justice is related to consumers' evaluation about the settlement procedures throughout the service recovery process (Bortoli & Pisuti, 2017). The last dimension in perceived justice is interactional justice, which refers to individuals' perception of the treatment they receive from the organization during the service recovery process (Chen & Kim, 2019). Firms can show their politeness, respect consumers, pay attention, and show empathy (Gligor & Bozkurt, 2020).

Customer Engagement

In general, customer engagement is the interaction and relationship of customers with a brand or firm (Do et al., 2019). It can be understood as a customer's state of mind that is considered as motivational about a brand, context-dependent, and characterized by cognitive, emotional, and behavioral activities in interactions with a brand (Rather, 2019). Pansari & Kumar (2017) suggested that customer engagement is a way to improve firm performance and achieve competitive advantage. It can also be seen as a psychological condition as well as a set of behaviors displayed by customers (Do et al., 2019; Rather, 2019). Along with the development of the literature, a number of scholars also stated that customers today are not only bound and have limited interactions with brands or firms, but also with other customers in the social networks (Islam & Rahman, 2016; Rather, 2019). Therefore, there is an agreement on broader definition of customer engagement, namely the connection between customers and certain objects, but not limited to a brand or firm (Pansari & Kumar, 2017; Do et al., 2019).

Customer Satisfaction

Kurdi et al. (2020) defined customer satisfaction as an evaluation made by customers of a product or service based on the extent to which it meets their expectations. Customer satisfaction is a sign of firm or brand performance in the past, present, and in the future (Gligor & Bozkurt, 2020; Pansari & Kumar, 2017). Similarly, Alzoubi et al. (2020) also suggested that satisfaction signifies an individual's cognitive-affective state based on their prior experiences. Satisfaction is divided into two types, namely action-specific and overall satisfaction (Abror et al., 2019). The significance of satisfaction makes it one of the ultimate goals in marketing. When customers purchase a product or access a service provided by a firm, they will form expectations of what they will get. If a firm provides products or services that exceeds their expectations, customers will feel satisfied (Thakur, 2019; Abror et al., 2019).

Customer Loyalty

Customer loyalty is characterized by various things done by customers, such as preferring one firm over another, purchasing products or using services from the same firm, displaying an intention to purchase these products or services in the future, to carrying out positive word-of-mouth (WOM) (Latif & Uslu, 2019; Cotarelo et al., 2021). Customer loyalty is also considered as the ultimate goal of the marketing field in the firm, as it enables product utilization from customers in a sustainable manner. Customer loyalty is defined as a repeat purchase of a particular product or service (Thakur, 2019; Budur & Poturak, 2021). It includes behavioral aspects such as intention to purchase or reuse, WOM, advocacy, and also psychological attachment. In other studies, customer loyalty is seen as a process carried out by firms to maintain or increase customer subscriptions in the long term, thereby increasing the value of customers to the firm (Rather, 2019).

Apology

There are two categories in the service recovery strategy, namely economic and emotional recovery (Wei et al., 2020). Apology falls into the second category, and is seen as a factor with the potential to lead to customer forgiveness. Apology can be a way for firms to return customers' intangible resources, such as self-esteem and sense of control (Radu et al., 2019). It can reduce anger and aggressive expressions from customers, since they see the firm admit to their mistakes and take responsibility for it. Muhammad & Gul-E-Rana (2020; Wei et al., 2022) stated that customers will be more willing to apologize when firms show their apology. An apology indicates that the firm provides a detailed explanation, is responsible for the errors that occur, shows consideration, and promises good things such as compensation that will be given to customers (Jayasimha et al., 2017).

Diuwongke

Diuwongke is one of the philosophies of life held by the Javanese-Indonesian people. It is part of the psychological aspect of individuals to treat others with respect (Dewi et al., 2018). Suratno (2018) adapted this concept from one of the Javanese literary works, and suggested that *diuwongke* is respecting and positioning others on an equal footing with himself. More comprehensively, Rahmadani & Schaufeli (2022) expanded this concept and defined it as a condition in which a person is treated well and humanely, thus enable this person to feel respected, recognized, heard, and considered by others. When individuals feel *diuwongke*, they will be more daring to give opinions, feel more confident, and increase their dignity. So far, research on *diuwongke* has mostly been done in the field of HR, since this concept is also applied to employer-employee relationships in several large firms in Indonesia (PT. Astra International Tbk., 2023; Rahmadani & Schaufeli, 2022). Dewanto (2017) added that the concept of *diuwongke* is relevant to service excellence, that as human being, customers only want to be treated humanely. Similarly, Widi (2019) stated that customers, especially those from Java, need to be *diuwongke,* because it becomes one of their priorities.

Hypothesis Development

The three components of justice, namely distributive, procedural, and interactional play an important role in an exchange relationship (Al-Dmour et al., 2021; Chen & Kim, 2019). Customers will consider the extent to which the input and outcomes they get are compared, the effectiveness of the procedures carried out by the firm or service provider, and perceive the interactions that occur between service providers and the customers (Latif & Uslu, 2019; Shin et al., 2018). The study from Do et al. (2019) indicate that violation of individual needs, including justice, can have a negative impact on customer engagement, as this will trigger negative emotions and reactions from customers. In the context of business services, customers naturally form expectations that they will be treated fairly. As a result, when customers perceive injustice in a treatment after a service failure, they tend to form a negative response and have a low engagement level. On the contrary, when customers perceive that they are treated fairly in the service recovery process, they can develop their engagement to the firm or brand (Roy et al., 2018; Gligor & Bozkurt, 2020). Based on this explanation, the hypothesis formed is:

H1   Perceived justice positively influences customer engagement.

The satisfaction felt by customers is closely related to the engagement they feel to a firm or brand. A number of previous studies have proven the positive influence of customer engagement on customer satisfaction (Hapsari et al., 2017; Harrigan et al., 2017; Abror et al., 2019). If customers feel engaged to a product or service from the firm, they will form the perceived value of the product or service, which ultimately leads to higher level of customer satisfaction (Ahn & Back, 2018). The study from Haverila et al. (2021) on members of the brand community in Canada and the US indicate that customer engagement can increase customer satisfaction. Similarly, the meta-analysis from Barari et al. (2021) on customer engagement also shows that customer satisfaction acts as a sign of relationship quality that is based on that engagement. Based on this explanation, the hypothesis proposed is:

H2   Customer engagement positively influences customer satisfaction.

The concept of customer loyalty holds a significant role in firms. The engagement of customers towards a particular brand or firm indicates their loyalty (Hapsari et al., 2017; Gao & Huang, 2021). This is because customer engagement will drive positive behavior of customers such as loyalty through psychological relationships that grow from the customers' interactive experience while consuming or purchasing a product or service (Tuguinay et al., 2022; Zaid & Patwayati, 2021). The positive customer experience that arises from this engagement will be seen as pleasant, thus increasing customer loyalty which is characterized by repeated use of the product or service (Harmeling et al., 2017; Rather, 2019). The study from Zahoor (2022) on consumers of banking services in India shows that customer engagement mediates the relationship between service recovery and customer loyalty. It indicates that engagement and loyalty are related, and become relevant aspects in the context of service recovery. Based on this explanation, the hypothesis proposed is:

H3   Customer engagement positively influences customer loyalty.

The importance of customer satisfaction for business sustainability can be seen from the view that customer satisfaction is closely related to the firm's overall performance (Rather & Sharma, 2017; Goutam et al., 2021). Customer satisfaction is also considered as an aspect that determines the growth of customer loyalty (Harmeling et al., 2017; Cotarelo et al., 2021). Customers who are satisfied with the product or service they use are more inclined to recommend it to others or make repeat purchases, which represents loyalty (Mofokeng, 2021). Zaid & Patwayati (2021) examined the relationship of these two constructs in the context of e-retailing consumers in Indonesia. The findings prove that customer satisfaction positively affects customer loyalty. Based on this explanation, the hypothesis proposed is:

H4   Customer satisfaction positively influences customer loyalty.

The role of customer satisfaction as a mediator has been considered in several studies on loyalty in the context of hospitality services (Rather, 2019; Satti et al., 2022). Customer satisfaction describes the customers' overall assessment of the performance of a product or service. Shin et al. (2021) conducted a meta-analysis of customer satisfaction in the context of peer-to-peer accommodation. One of the findings indicates the role of customer satisfaction that needs to be considered as mediating variable. Customers who have an engagement to a brand or firm tend to use the products and services of certain brand or firm, and this will lead to customer satisfaction. The satisfaction felt by customers will lead to loyalty, which is characterized by intention to buy or reuse and WOM (Budur & Poturak, 2021; Zaid & Patyawati, 2021; Hapsari et al., 2017). Based on this explanation, the hypothesis proposed is:

H5   Customer satisfaction mediates the influence of customer engagement on customer loyalty.

One thing that distinguishes the firm's treatment to customers after a service failure occurs is an apology. Apology from firms to customers indicate that firms are responsible for what they have done and feel guilty for allowing such things to occur (Harrison-Walker, 2019). When firms apologize to customers, they show empathy, extra effort, politeness, courtesy, and concern for the customers. Meanwhile, the absence of apology will let customers experience prolonged negative emotions. Radu et al. (2019) proved the moderating role of apology in the influence of service failure severity on customer reconciliation and retaliation, as a high apology from the firm will lead to these outcomes. On the other hand, the non-existence or low level of apology can make the firm experience a decrease in profit since their customers switch to other firms (Wei et al., 2020; Riek & DeWit, 2018). In this study, apology is predicted to moderate the influence of perceived justice on customer engagement. Apology from the firm will strengthen this influence, because customers will develop positive emotions back towards the firm, and vice versa. Based on this explanation, the hypothesis proposed is:

H6   Apology moderates the influence of perceived justice on customer engagement.

Bortoli & Pissutti (2017) stated that employees must be responsive to meet customer expectations regarding the service recovery they provided. Customer expectations will increase and lead to satisfaction if the firm meets their perception regarding how they will be treated during service recovery process (Chang & Hung, 2018). Previous studies

that examined the relationship between customer engagement, satisfaction, and loyalty suggest to explore other variables that can moderate this influence (Thakur, 2019), which in this study was expressed through *diuwongke* variable.

This study predicts that the influence of customer engagement on customer satisfaction and loyalty will be different along with different levels of *diuwongke* experienced by customers. Nowadays, customers are no longer objects, but they must be seen as partners who must be *diuwongke*. *Diuwongke* also applies to patient care in hospitals. It can be done through simple things such as greeting or appreciating patients (Nugroho, 2019). When the patients feel *diuwongke*, they will be suggested that they are more valued, feels comfortable, has more trust, and receives positive energy. Similarly, when customers are treated with dignity and respect, they will feel valued by the firm. In line with SET (Cropanzano & Mitchell, 2005), customers will reciprocate this with positive attitude towards the firm through satisfaction and loyalty. Customer engagement will have stronger influence on customer satisfaction and loyalty when customers feel they are being treated humanely, or *diuwongke*. Based on this explanation, the hypothesis proposed is:

H7a   *Diuwongke* moderates the influence of customer engagement on customer satisfaction

H7b   *Diuwongke* moderates the influence of customer engagement on customer loyalty

Figure 1: Conceptual Model
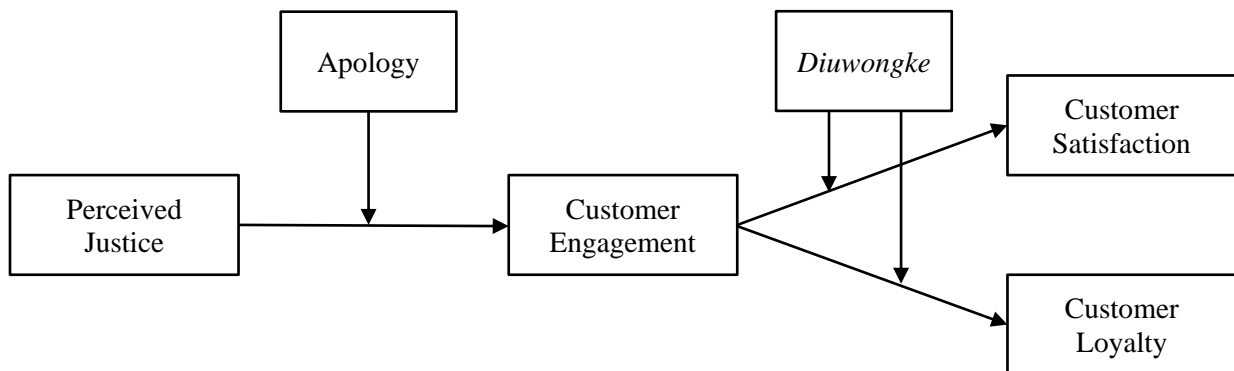
Methodology

Research Design and Procedures

This study is conducted using a quantitative approach. The participant of this study is customers of three state-owned banks located in two provinces in Indonesia, namely Central Java and the Special Region of Yogyakarta. These two provinces are chosen because the customers in these areas hold the *diuwongke* philosophy in their daily lives. The final number of respondents valid for data analyses was 430. Since the number of the respondents are not known, we employ purposive sampling for the respondents, with the criteria that: (1) have experienced service failure and service recovery; and (2) the customer come back to the bank after experienced that. The researcher initially

targeted to reach 450 respondents with each bank being represented by 150 respondents. We reached out to respondents by posting on social media and distributing the questionnaire through online platforms. From the data obtained, 20 respondents did not fill out the questionnaire completely, thus it cannot be used for further analysis.

The data collection process is carried out by distributing questionnaires to respondents using Google Forms platform. This platform is chosen because of its flexibility and ability to reach a wider respondent. The questionnaire items are assessed using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The data obtained were then evaluated regarding its validity and reliability. Furthermore, the researcher examined the hypothesis using the Structural Equation Modeling with Partial-Least Square (SEM-PLS) and PLSpredict.

Measurement

The item measurement for perceived justice is adapted from Colquitt (2001; Latif & Uslu, 2019) consisted of three dimensions, namely distributive justice, procedural justice, and interactional justice with 20 items. Customer engagement is adopted from Rather (2019; Hapsari et al., 2017) with the total of 8 items consisted of psychological emotional, and behavioral perspective. Customer loyalty is also adopted from the same source and measured using 6 items. Furthermore, customer satisfaction is adapted from Rather & Sharma (2016; Rather, 2019) with the total of 8 items. Apology is measured using the items developed by Harrison-Walker (2019) with the total number of 5 items. Finally, *diuwongke* is measured using 10 items adapted and modified from Rahmadani & Schaufeli (2022).

Results

Respondents' Characteristics

Table 1: Respondents' Characteristics

Demography	Amount	Percentage
Gender		
Male	142	33%
Female	288	67%
Education		
Senior High School	73	17%
Bachelor Degree	236	55%
Master Degree	121	28%
Salary		
≤ IDR 1.500.000	65	15%
IDR 1.500.001 – 3.000.000	65	15%
IDR 3.000.001 – 4.500.000	169	39%
IDR 4.500.001 – 6.000.000	99	23%
≥ IDR 6.000.001	32	7%
Intensity to Use Banking Services		
Rare (monthly use)	69	16%
Sometimes (weekly use)	107	25%
Often (daily use)	254	59%

The majority of respondents in this study are female (67%), have bachelor degree (55%), have salary per month ranging from IDR3.000.000 – 4.500.000 (39%), and often use banking services both online (m-banking) and offline (59%). The respondents have also experienced service failure at least once while become the bank customers.

Outer Model Evaluation

Table 2: Results of Validity and Reliability Test

Variable	Indicator	Factor Loadings	Average Variance Extracted	Cronbach's Alpha	Composite Reliability
Perceived Justice	PJ1	0.715	0.512	0.931	0.934
	PJ2	0.815			
	PJ3	0.725			
	PJ4	0.713			
	PJ5	0.747			
	PJ6	0.704			
	PJ7	0.735			
	PJ8	0.795			
	PJ9	0.782			
	PJ10	0.706			
	PJ11	0.739			
	PJ12	0.744			
	PJ13	0.721			
	PJ14	0.725			
	PJ15	0.747			
	PJ16	0.789			
	PJ17	0.754			
	PJ18	0.755			
	PJ19	0.706			
	PJ20	0.719			
Apology	Ap1	0.724	0.580	0.720	0.817
	Ap2	0.735			
	Ap3	0.767			
	Ap4	0.741			
	Ap5	0.787			
Customer Engagement	CE1	0.783	0.563	0.888	0.911
	CE2	0.824			
	CE3	0.785			
	CE4	0.780			
	CE5	0.717			
	CE6	0.779			
	CE7	0.818			
	CE8	0.796			
Customer Loyalty	CL1	0.767	0.600	0.799	0.856
	CL2	0.768			
	CL3	0.753			
	CL4	0.733			
	CL5	0.733			
	CL6	0.765			
Customer Satisfaction	CS1	0.738	0.509	0.796	0.803
	CS2	0.740			
	CS3	0.759			
	CS4	0.788			

	Di1	0.748			
	Di2	0.755			
	Di3	0.783			
	Di4	0.758			
Diuwongke	Di5	0.718	0.527	0.900	0.917
	Di6	0.702			
	Di7	0.720			
	Di8	0.710			
	Di9	0.774			
	Di10	0.724			

Measurements of factor loadings, Average Variance Extracted (AVE), Cronbach's Alpha, and Composite Reliability serve to determine whether the indicators on the latent variables in the study meet the validity and reliability requirements. In order to find out whether an indicator is valid in measuring the latent variable can be seen in the outer loadings and Average Variance Extracted values, while reliability is measured on the Cronbach's Alpha and Composite Reliability parameters. If the value of outer loadings and AVE is more than 0.50 then it can be said to be valid. In addition, if Cronbach's Alpha and Composite Reliability have a value greater than 0.700 then the indicator can be said to be reliable. In Table 2, the details of the measurement of each parameter are shown. The output indicates that all parameters meet the acceptance criteria.

Determinant Coefficient

The value of the coefficient of determination shows how much influence or role the exogenous variable has on the endogenous variable. In this test the value of the coefficient of determination on customer engagement is 0.400. This means that perceived justice and apology can affect customer engagement by 40.0%. The coefficient of determination for customer loyalty is 0.338, meaning that customer loyalty can be influenced by customer satisfaction and customer engagement by 33.8%. Then, the value of the coefficient of determination for customer satisfaction is 0.417. This means that customer satisfaction is influenced by *diuwongke* and customer engagement by 41.7%. The value of the coefficient of determination for the causal relationship between exogenous variables and endogenous variables can be seen in Table 3 below.

Table 3: Determinant Coefficient

Variable	R-square	R Square Adj
Customer Engagement	0.400	0.395
Customer Loyalty	0.338	0.331
Customer Satisfaction	0.417	0.410

Model Causality Test

The hypothesis of a causal relationship can be accepted when it has a t statistic value greater than t table. In this study the degree of freedom used at 5% significance is 424,

thus the t table value is 1.9656. From the test results, obtained data that all alternative hypotheses can be accepted significantly. The following is a description of the explanation of the test results.

1. Perceived justice positively influences customer engagement (b = 0.559, p < 0.001). Hence, H1 is accepted.
2. Customer engagement positively influences customer satisfaction (b = 0.370, p < 0.001). Therefore, H2 is accepted.
3. Customer engagement positively influences customer loyalty (b = 2.791, p < 0.001). Thus, H3 is accepted.
4. Customer satisfaction has a positive influence on customer loyalty (b = 0.109, p < 0.001). Hence, H4 is accepted.
5. Apology positively moderates the causal relationship between perceived justice and customer engagement (b = 0.305, p < 0.001). As a result, H5 is accepted.
6. *Diuwongke* positively moderates the causal relationship between customer engagement and customer satisfaction (b = 0.340, p < 0.001). Therefore, H5 is accepted.
7. *Diuwongke* positively moderates the causal relationship between customer engagement on customer loyalty (b = 0.376, p < 0.001). Hence, H5 is accepted.

Tabel 4: Model Causality Test Result

Model Causality	Path Coefficients	T Statistics	P Values
Perceived Justice → Customer Engagement (H1)	0.559	11.642	0.000
Customer Engagement → Customer Satisfaction (H2)	0.370	4.557	0.000
Customer Engagement → Customer Loyalty (H3)	0.204	2.791	0.005
Customer Satisfaction → Customer Loyalty (H4)	0.109	2.347	0.019
Perceived Justice x Apology → Customer Engagement (H6)	0.305	7.755	0.000
Diuwongke x Customer Engagement → Customer Satisfaction (H7a)	0.340	8.775	0.000
Diuwongke x Customer Engagement → Customer Loyalty (H7b)	0.376	9.542	0.000

Mediator Variable Test

This test was conducted to determine the role of the mediator variable in the causal relationship between exogenous variables and endogenous variables. The detailed results of this test can be seen in Table 5 of specific indirect effects.

From Table 5, it can be concluded that customer satisfaction can be a mediator that has a significant influence on the relationship between customer engagement and customer loyalty. It is indicated from the Sobel test value of 2.103, which is greater than z table of 1.96, with the probability value of 0.018, which is smaller than 0.05. Therefore, Hypothesis 5 is accepted.

Table 5. Specific Indirect Effects

Variable	Specific Indirect Effects	Sobel Test Statistics	*p*
Customer Engagement --> Customer Satisfaction --> Customer Loyalty	0.308	2.103	0.018

Based on the tests that have been carried out, the results obtained that all proposed hypotheses in this study can be accepted at a significance level of 5%.

PLSpredict

PLSpredict is based on the concept of separate training and sample holdout for predicting the ability of parameter in a research model, and is used to evaluate a model's predictive power (Shmueli et al., 2019). The author used k-fold = 10 with 10 repetitions. Based on the predictive model assessment, the author used MAE parameter rather than RMSEA, since the error distribution in the indicator does not form a symmetric graphic. Figure 2 displays the guidelines for using PLSpredict.

Figure 2: Guidelines for Using PLSpredict
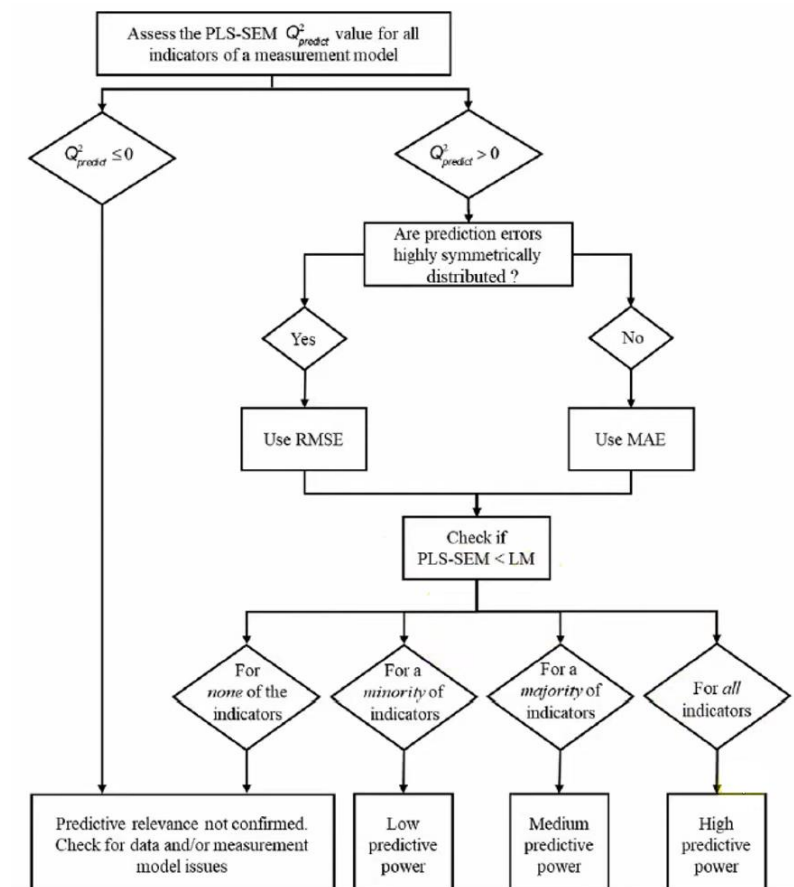

Source: Shmueli et al. (2019)

From the results of PLSpredict in Table 6, it is known that the model's predictive power in predicting belongs to high category. This is indicated from all error indicators (MAE) in PLS-SEM which is smaller than the error value (MAE) in naïve LM benchmark.

Table 6. Specific Indirect Effects

Item	PLS SEM MAE	LM MAE	Q^2 predict	PLSSEM – LM MAE
CE1	0.561	0.569	0.204	-0.032
CE2	0.558	0.611	0.221	-0.053
CE3	0.735	0.738	0.141	-0.003
CE4	0.591	0.613	0.145	-0.022
CE5	0.816	0.848	0.244	-0.032
CE6	0.633	0.636	0.165	-0.003
CE7	0.880	0.897	0.243	-0.017
CE8	1.083	1.124	0.211	-0.041
CL1	0.526	0.569	0.236	-0.043
CL2	0.749	0.760	0.256	-0.011
CL3	0.507	0.574	0.112	-0.067
CL4	0.618	0.642	0.196	-0.024
CL5	0.447	0.477	0.251	-0.030
CL6	0.506	0.558	0.181	-0.052
CS1	0.545	0.587	0.225	-0.042
CS2	0.548	0.569	0.199	-0.021
CS3	0.552	0.562	0.123	-0.010
CS4	0.463	0.517	0.165	-0.054

Based on the results of the structural model evaluation and PLSpredict estimation, the output of the research model is displayed in Figure 3 below:

Figure 3: Output of the Research Model
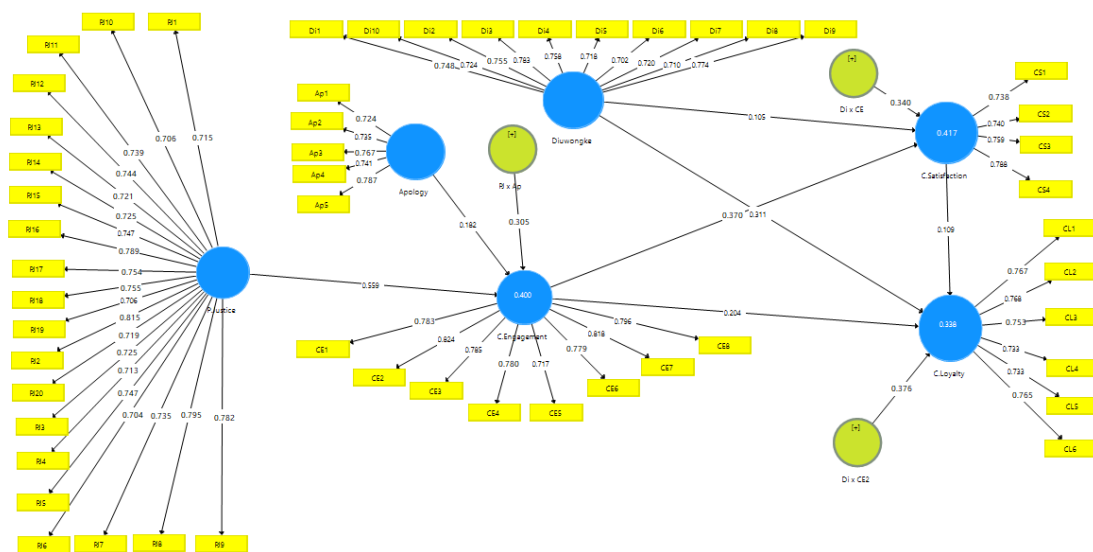
Discussion

The results of hypothesis test indicate that all hypotheses proposed in this study are accepted. In the first hypothesis test, it is found that perceived justice, with its three dimensions, positively influences customer engagement. This finding supports the study from Roy et al. (2018; Gligor & Bozkurt, 2020). The justice provided by banks in the service recovery process indicates that they are willing to compensate for service failures that occur, carry out effective procedure in solving problems, and provide interactions that are well-received by customers. In this study, the existence of fairness in handling will encourage the emergence of a positive response from bank customers, which is indicated from their engagement towards the banking firm.

Furthermore, the results of the second and third hypothesis test confirm that customer engagement positively influences customer satisfaction and loyalty. The existence of engagement indicates that customers have formed positive thoughts and attitudes towards a brand or firm, and this is reflected in their cognitive, emotional, and behavioral activities when interacting with the brand or firm. The bank customers, which becomes the respondents in this study, show their engagement to banking firms with satisfaction and loyalty to the services provided. This finding supports the study from Hapsari et al. (2017; Harrigan et al., 2017; Abror et al., 2019; Rather, 2019; Zahoor, 2022). The higher the customers' engagement to banking services, the higher their satisfaction and loyalty would be.

Customers tend to use banking services repeatedly when they are satisfied with it. In addition, they will also show their satisfaction by recommending these services to others. This makes loyalty one of the strategic aspects that will increase the success of a firm, or banking services in this study. It can be seen from the significant result of the fourth hypothesis proposed, namely that customer satisfaction positively influences customer loyalty. This finding supports several previous studies that have been done (Rather & Sharma, 2017; Goutam et al., 2021; Harmeling et al., 2017; Cotarelo et al., 2021; Zaid & Patwayati, 2021). The higher the satisfaction of bank customers, the higher their loyalty would be.

Moreover, in the same line, the results of the fifth hypothesis prove the role of customer satisfaction as a mediator in the relationship between customer engagement and customer loyalty. The role of customer satisfaction as a mediator has been proven by Rather (2019; Satti et al., 2022; Budur & Poturak, 2021). Customers who are tied to a banking firm's services are more inclined to use their services, thus leading them to satisfaction. The satisfaction perceived by customers will lead them to loyalty, which is signified by the intention to reuse or recommend it to other parties.

The results of the hypothesis test also confirm the moderating role of apology and *diuwongke*. In the sixth hypothesis, apology is found to moderate the influence of perceived justice on customer engagement. This finding is in line with the research from Radu et al. (2019; Wei et al., 2020). The apology from the staff or banking firms will ease of facilitate customers to forgive the mistakes made by the firm. It also indicates that the banks admit their mistakes and are willing to take responsibility for them. High apology from the firm or staff is found to be able to strengthen the influence of perceived justice on customer engagement because customers will be able to restore their self-esteem and sense of control, and change their anger into more positive emotions.

Finally, the results of the seventh hypothesis regarding the moderating role of *diuwongke* also indicate significant results. It indicates that the positive treatment from the banks towards their customers due to the failure of their services is rewarded with positive customer attitudes in the form of satisfaction and loyalty. From this idea of *diuwongke*, it turns out that this concept is on the similar line with *omotenashi,* which refers to the added value of experience expected by customers and is a combination of hospitality and services. In their study, Kuboyama (2020) mentioned that *omotenashi* is an act of considering others. When it is put into marketing studies, this concept refers to the act of proactively respond to the requests and needs of customers. Customers who are engaged to the firm will be more satisfied and loyal when they feel *diuwongke* by the staff or the firms. They feel valued, recognized, as well as treated with respect by the firm. This allows customers to develop positive emotions as outlined in the strong influence of customer engagement on satisfaction and loyalty.

Implications

This study contributes to service-based businesses especially in the banking service industry to develop appropriate service recovery strategies, in order to increase and maintain customer engagement, satisfaction, and loyalty. Service recovery is an issue that continues to develop and will not be obsolete, because in running a service-based business, failure in service delivery is something given and it cannot be completely avoided by firms.

Distributive, procedural, and interactional justice each play a role in increasing customer engagement. This shows that firms must pay attention to all aspects of justice that will be received by customers and not only focus on one aspect. When there is a failure in the service delivery process at the bank, the first thing that must be done by the firm is to ensure that customers receive justice in all aspects. Firms need to compensate for losses received by customers, ensure that there is a fast and effective problem-solving procedure, and facilitate customers to interact in a friendly manner. This will lead to customer engagement, which is then followed by their satisfaction and loyalty. Firms must also have concern to several conditions that underlie this relationship, which in this study are shown in apology and *diuwongke*.

Theoretically, this study also provides some contributions. First, it empirically confirms and extends SET which has been widely used in HRM studies, and brings it into the context of customer-firms relationship in marketing and service recovery literatures. Second, this study highlights a new concept, namely *diuwongke*, which is taken from the Javanese-Indonesia philosophy and proves its role as a moderator in the influence of customer engagement on customer satisfaction and loyalty. Third, it answers the limitations of prior researches which tend to overlook the customers' side of forgiveness in service recovery by highlighting the apology from the firm.

However, this study still has limitations that should be addressed by future research. First, the data obtained in this study is cross-sectional. Future research is recommended to use longitudinal data to obtain more robust results. Furthermore, although the number of samples in this study is quite large, the samples were taken from certain areas that represent the Javanese-Indonesian community. Future researchers are suggested to bring the concept of *diuwongke* to different settings, thus the role of this concept can be explored more comprehensively.

Practical Implications for Asian Business

This study contributes to answer the phenomena that occurs in business by building and expanding the concept of perceived justice in service recovery using the Javanese-Indonesian philosophy, namely *diuwongke* to maintain and strengthen customer-firm relationships through customer engagement, satisfaction, and loyalty. It also highlights the crucial role of firms and the positive treatment they must provide to customers during the service recovery process such as perceived justice, apology, and make customers feel *diuwongke*. With the dynamics of customers and an ever-evolving market, firms must continue to adapt their service recovery strategies, thus enable them to maintain long-term relationships with their customers.

Indonesia is one of the developing countries with emerging markets that have diverse groups of ethnicities. Each group has a philosophy of life that they use as a guide. This makes the diversity and uniqueness comes from each individual which is embedded in their behavior and attitudes as customers. With these considerations in mind, this study introduces new insights that are considered to be relevant to service recovery. *Diuwongke*, which was initially researched on a limited basis in the context of employee-employer relationships, is developed to explore the connection between firms and customers. *Diuwongke* is found to be able to moderate the influence of customer engagement on customer satisfaction and loyalty. These findings can be the beginning for the development of future research in the marketing literature, especially regarding customer service.

This study was specifically carried out on bank customers in Central Java and Yogyakarta who hold the *diuwongke* philosophy. However, it is possible that this concept can be practiced by other firms or businesses that are engaged in the service industry in Asia. This is because people in Asia are also likely to hold Eastern cultures, one of which includes respecting other people and humanizing them. This study has also confirmed the relationship between perceived justice, customer engagement, apology, customer satisfaction, customer loyalty, and *diuwongke* in the banking service industry in Indonesia.

In addition to explaining the phenomena that occur in the service industry, especially the banking service industry in Indonesia, the findings in this study can also be used as a reference to explain business conditions in a broader context. Perceived justice from customers plays an important role as the first step that firms need to pay attention to when they experience service failures. After customers receive the appropriate justice, firms also need to apologize and admit mistakes that occurred, whether the mistakes were intentional or unintentional. This will enable customers to redevelop their engagement towards the firm. Moreover, firms can strengthen and maintain customer relationships when they value and treat customers with respect so that they feel *diuwongke*. This will strengthen customer satisfaction and loyalty to the firm.

In accordance with the explanation above, this study confirms the SET in the relationship between customers and firms or service providers. SET, which has been explored more in the HRM literature, can actually be applied and extended to marketing research, such as for understanding firms-customer relationships. Service recovery is a challenge that must be answered by firms which operate in the service sector. In the end, these findings can also become the basis for firms, both those based in Indonesia

that holds the Javanese philosophy and other firms that are also engaged in the service sector to develop a service recovery strategy based on mutually beneficial exchange relationships with their customers.

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