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Customer Switching Behavior: Developing model in the Iranian Retail Banking Industry

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ABSTRACT

The aim of this research is studying the effective factors on customer switching. Customer retention is one of critical aspects of routine strategies on marketing, particularly when customers of a business reach to their maximum, finding and retention of new customers significantly is difficult and costly. At such point of life cycle of a business, priority is more on customer retention with old value and prevention of their switching, so it is necessary that institutes detect the factors of customer switch in order to keeping the relationships with customers and edit and execute necessary strategies to contrast with this phenomenon. Statistical population of this research is all of the customers of Tejarat Bank in Tehran that using the sampling method 220 customers are chose as sample. The required data are gathered by using questionnaire and for analyzing the data and examining the hypothesis is used of partial least square method (PLS). The results show that customer satisfaction, and customer trust has negative relationship with switching behavior, and service failure has direct relationship with customers switching behavior.
KEYWORDS: switching, customer, service failure, trust, satisfaction.

INTRODUCTION

Customer switching management is a phrase that applies for expressing the loss of customer due to the various reasons. To be more accurate, customer switching management means detecting customers that are on the threshold of leaving use of organization services and using the services of rivals(Hadden et al, 2005). Customer retention is one of the critical aspects of routine aspects of marketing. Especially when customers of a business reach to their maximum, finding and keeping new customers significantly become difficult and costly. At such point of lifecycle of a business, priority is more on customer retention with old value and prevention of their switching(Bin et al, 2007; Buckinx, 2007; Qi et al, 2006; Wang et al, 2009; Yan et al, 2004). Economic value of customer retention has been studied on some researches. Reichhel and Sasser(1990) showed in a research that 5% increasement in keeping rate of customers result in 85% increasement in the profit of banks and 50%increasement in commission fee of insurance companies. Similar results are findable from the study of Van den Poel&Lariviere (2004)that studied the financial effects of 1%increasement in customer attraction rate. This rule shows the role of "customer switching management" in assuring the survival of organization.

Keeping the old customers, especially in service markets such as the banking that unlike the goods doesn't have one-time sale, except the costs of customer attraction, bring the opportunity value to bank which means that the suppliers are able to giving extra and new services to the customer during the keeping period and earning more income. For this reason loss of the existing customer not only results in decreasement of the income and imposing new customer attraction to institution but also results in losing potential incomes. The first step in gaining economic advantages is making a model for retention and prevention of losing customers in relationships with customers. Hence many businesses, identifying the main reasons of losing a customer and even probable identification of appearance of this phenomenon prior to its occurrence is so valuable. The business owners by using this information can proceed to detecting and implementing new strategies in contrast with this danger. Even though many businesses are interested in making such a model to solve the problems of their businesses, they can't find an effective way to solve this complex problem that can confuse them for a long time. This study attempts that on the base of the obtained researches in this field and

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identifying the particular conditions of customer scope of the bank, to study the reasons of switching phenomenon formation of these customers toward the vital institutions.

LITERATURE

Customer switchingis the inherent tendency of the customer relinquishment from continuing the trade relationships with a company in a period (Chandar, et al, 2006). According to this definition, a churner customer is someone who cut all his activities with company (Van den Poel&Lariviere, 2004) or at least its buying repetition is less that average (Buckinx, Van den Poel, 2005) and his lifetime valuedecreases gradually (Glady et al, 2009).Many competitive businesses correctly have found that for survival in an industry it is necessary that retention of valuable customers be in the center of their management strategies.

Switchingrate shows a percent of customers who cut his communication with service provider (Wang et al, 2004). In normal conditions, a relationship has continuity when both sides of relationship have satisfaction in this relationship, while there areother choices for choosing (Hoekstra and Huizingh, 1999). If the amount of customer satisfaction decrease any way and there be a rival who has the ability to represent a product or similar service, the mentioned relationship with be in exposure of danger. Satisfaction amount and the attractiveness of the other possible choices identify the strength of relationship (Anderson et al, 1994; Morgan and Hunt, 1994; Peelen et al, 1989). So, one of the effective factors in keeping customers is customer satisfaction, of course at the conditions that there is enough different alternatives (Rust and Zahorik, 1993).

Switching cost

"Switching cost" is a term for explaining various spectra of financial and non-financial costs that occur in various presentations (Matthews, Murray, 2007). Switching costs can measure with costs that derive from switching toward another provider (Lee, Cunningham, 2001). In bank industry, switching costs can interpret with respect to money, time, and attempt, such as transferred amounts, opening a new account, and registering in online banking systems. Researchers have studied the relationship between switching costs and customer switching behavior, For example, Fornell (1992) expressed that high switching costs with making the change of service provider costly for customer, can prevent from switching. Direct costs and switching opportunity costs may discourage customers from leaving the current organization, because it is possible that customers understand switching costs more than the expected advantages of change of service provider (Lees et al, 2007).

H_1: switching cost has negative significant effect on switching behavior of bank customer.

Customer satisfaction

Generally, satisfaction means rating method of brand on the basis of all of the behaviors and experiences by customers (Kim et al, 2004). Customer satisfaction is more dependent on a total satisfaction of given transactions in past (Johnson, 1995). The main defining factor of customer satisfaction is the customer perception of service quality (Zeithamal, Bitner, 1996).

Customer satisfaction is a critical marketing concept that shows satisfying the needs and tendencies of the customer is vital for success of companies(Han,Ryu, 2006; Sprenget al, 1996). When customer satisfaction is discussed generally, researchers usually more emphasize on general judging of the customers that have been affected by service features, personal sale performance or other situational factors (Back and Parks, 2003; Han and Ryu, 2006). According to the Oliver (1980), when people experience the services, and compare their expectations, its result is satisfaction and dissatisfaction of the customer. If the performance (main services/ secondary services) be according to the expectations or more than them, they are usually satisfied. But if the performance isn't according to the expectations, customers will be dissatisfied with their services. Customer satisfaction is the result of customer comparison between their expectations from the performance before buying with real performance and undertaken cost (Churchill and Surprenant, 1982).

H_2:customer satisfaction has negative significant effect on switching behavior of bank customers.

Service failure

Service failures can be defined as perception and real failure of services from the point of view of the result or process (Duffy et al, 2006). Service failure recovery (SFR) includes performances in which service provider tries to modify the service failure(Gronroos, 1988). These activities are designed to solve the problem of changing negative attitudes of dissatisfied customers and finally to keeping customers (Miller et al, 2000). Satisfaction from the service recovery operations is defined as objective evaluation of the customers that is derived from their experiences in the field of service recovery (Duffy et al, 2006).

Most researchers suggest that interactive relationship quality of the organization-customer effects on the reaction of the customer to service failure (Berry, 1995; Kelley, Davis, 1994).The literature related to loyalty show that company sources and skills are so important for customers and sources and skills more appear in the service quality(Mittal, Lassar, 1998). High quality can encourage customers till their relationship with service providers improve(Hess et al, 2003; Bell et al, 2005) That the results of Cronin and Taylor (1992) show that low quality or changes in the quality level of the companies cause changing in attitudes of the customers to company and probably changing in their behavior. The results of this study is compatible with the studies of Bansal et al (2005), Dabholkar and Valz (1999), Roos (1999) and Zitmal et al, (1996).

H_3: Service failure has positive significant effect on switching behavior of bank customers.

Trust

Danyand Conon (1997) believe that making trust includes a well-considered process on the basis of the ability of one side of the transaction for continuing to act the obligations and calculating the profit and cost amount of continuation of the relationship. As a result, customer not only should receive good product but also should believe that this good product also will exist in future (Aydin, et al, 2005) Trust has been known as an important factor in strengthening the relationship (e.g. Morgan and Hunt, 1994; Moorman et al, 1993; Sharma, 2003) that even results in customer loyalty(for example Fournier, 1998; Gundlach, et al, 1995). It seems that if one of the parties confide to the other he/she will show a kind of positive behavior. Therefore when customers confide to the brands they will show them a positive behavior in their purchase (Lau, Lee, 1999).

H_4: customer trust has negative significant effect on switching behavior of bank customers.

METHODOLOGY

The current research from the point of view of the classification of the researches according to the way of gathering data can be considered among the descriptive-survey researches. Also, according to the research classification from the point of view of the purpose, this research is among applied researches.

Statistical population of this study is all of the customers of Tejarat Bank in Tehran. According to the unknown nature of the volume of statistical population in this research, for obtaining sample volume it is used from the Cochran sample volume identification formula. Statistical sample of the research, is 220 people of the customers and are gathered by using data questionnaire.

Reliability and validity of measuring tool

Appropriate reliability amount for each indicatorwith its corresponding structure is at least 6% (Sosik et al, 2009) and for Composite Reliability is at least 7% (Fornell, Larcker, 1981; Sosik et al, 2009) as it is shown in table 1 the load of all reflective indicators with corresponding structure is more than 6%, so the reliability of measuring tool is confirmed.

Validity of measuring tools is measured by using the convergent validity index. Convergent validity turns to this principle that the indexes of each structure have middle correlation. The criterion of Fornell and Larker (1981) for convergent validity is being average variance extracted (AVE) further than 5%. AVE coefficients show that what percent of structure variance or model variable is described by a distinct component. Therefore it is concluded that the components can describe variance variables of the research model, so measuring tool has proper validity.

Table 1 the evaluation of reliability and validity of the research variables

Variable name	AVE ((>0.5)	Pc (>0.6)	R Square	Cronbachs Alpha
Switching cost	0.602	0.678	0.00	0.8721
Satisfaction	0.582	0.719	0.00	0.7981
Service failure	0.598	0.632	0.00	0.8631
Trust	0.613	0.702	0.00	0.7029
Switching behavior	0.663	0.682	0.422	0.8974

Analysis

59 percent of respondents were female and 41 percent were male, most of the respondents were middle-aged and there wasn't seen any respondent with the age of more than 65 years old: 29 people was between 15 to 25 years old, 66 people were between 25-35 years old, 52 people were between 35 to 45 years old, 49 people were between 45 to 55 and 24 people were between 55 to 65 years old. In terms of education 25 percent are people with diploma degree and under diploma (55 people), 48 percent have bachelor degree (105 people), 27 percent of the respondents have masters degree and higher than master's degree (60 people).

Research structural model

Figure 1 shows summary of the results obtained from PLS analysis for structural model test at the level of components with standardized path coefficient (β).

Figure 1 the results of research structural model

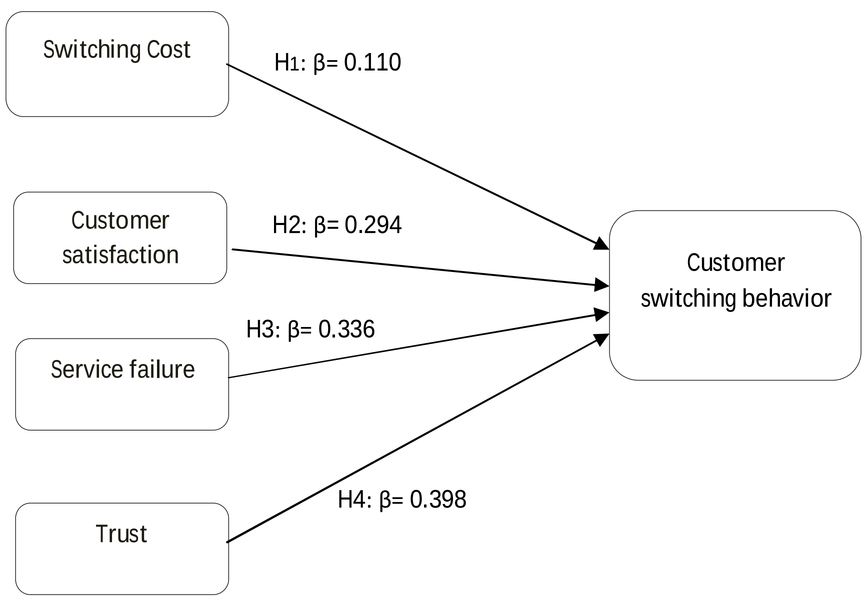

Table 2 the summary of research hypotheses results

Hypothesis	Independent variable	Dependent variable	Path coefficient (β)	Test statistics (t)	result
H_1	Switching cost	Customer switching behavior	0.110	0.28	Rejected
H_2	Satisfaction		0.294	2.82	Accepted
H_3	Service failure		0.336	3.59	Accepted
H_4	Trust		0.398	3.08	Accepted

DISCUSSION

The aim of study is investigating the effective factors on customers switching behavior in banking industry, on this purpose according to study of the literature, the variables of switching costs; customer satisfaction, service failure and trust are identified. Unlike the results of current research, findings of Jones et al (2002) show that switching costs positively and significantly have relationship with re-buying intentions. Also Colgate and Lang (2001) found that switching costs play an important role on forcing customers to lack of switching.

The results of second hypothesis of the research, confirms the negative effect of customer satisfaction on switching. In most researches significant relationship of satisfaction and switching behavior has been emphasized. As an example Ye et al (2006) have shown that customer satisfaction has negative effect on users' switching behavior, Rust and Zahorik (1993) explain that customer retention rate has direct relationship with customer satisfaction, that as a result increases the market share. Fornell(1992) says that high service quality has relationship with customer retention that its result is profitability of the company (Turbik, Smith, 2000).

The results of third hypothesis show the direct effect of service failure with customer switching. Johnson (2005) shows that service failure has negative effect on customer's loyalty behavior and it is one driver factor in switching. Service failures results in dissatisfying the expectations of customers and has negative effects on types of loyalty, word of mouth advertising and customer retention. Johnson (2005) in his study showed that at a situation that the service quality of service provider is inappropriate; the main reason of staying customers with suppliers is decreasing of the negative effects.

The results of the last hypothesis of the research confirms the negative effect of the trust on customer switching, trust can increase the loyalty of the customer, particularly in the banking industry that quality can't be evaluated correctly before purchasing (Andreassen and Lindestad, 1998; Nguyen and Leblance, 2001). Similar to the results of this study, Gerrard and Cunningham (2000) have known bank trust as one of the contributing factors in customer switching of the bank in Asia financial market. Weigelt and Camerer(1988) argued that positive trust is a strategic tool that banks use to reach to more profit. Wang et al declared that trust to bank play an important role in identifying the behavior of buying and re-buying from customers. Similarly, Yue and Tom (1995) and Javalgi et al (1989) showed that bank choosing decision from the customers can be affected by bank trust.

Future Studies and limitations

In this study, effective factors on customers switching is considered but only some effective variables have been studied, hence it is recommended that the other variables that can be effective on switching including switching barriers, distance, rivals' performance, price and… be evaluated accurately and finally it is recommended that the current model be examined in another statistical sample such as private bank in order to clarifying the generalizability power. The effect of the variables that are out of control of the researcher, one of the most important limitations of the research that is among the particular features of the social sciences, is the effect of variables that its control is beyond the access of the researcher and the possibility of their effectiveness on the results of research can be predicted.

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