Dimensions affecting customer switching in retail banking: A review

Pratap Chandra Mandal

Abstract
Customer retention is an important aspect in today’s competitive business scenario. This is especially true more for the services sector. Banking constitutes an important aspect in the business scenario. Banks will not be able to serve their customers unless they are aware of the requirements of their customers. Ignorance of the requirements will result in customers switching to other banks. For this reason, it becomes important to understand the dimensions affecting customer switching in retail banking. This paper reviews the literature with respect to finding the dimensions affecting customer switching in retail banking and aims to establish the ways in which banks may improve upon those dimensions and retain their customers.

Keywords: Customer switching, retail banking, service quality, customer satisfaction

1. Introduction
The increasing use of technology along with liberalization and deregulation has brought a revolution in the way of serving customers for banks. Technology is unsettling the earlier business processes and customer behavior is undergoing change. Nevertheless, the fundamental aspects of banking, i.e. trust and confidence of the people on the institution remain the same. This scenario of banking environment has presented many opportunities and threats in front of the management. For any firm, it is a serious setback to lose a customer in terms of its present and future earnings (Mittal and Lassar, 1998) [40] and it can cost five times more to acquire a new customer than to retain an old one (Peters, 1987) [44]. Customer switching affects market share and profitability negatively (Rust and Zahorik, 1993) [40]. The reason behind this may be, first, advertising, promotion, sales and uncovering their needs expenses are high and second, new customers need a grace period until they become profitable (Athanassopoulos et al., 2001) [1]. Hence, understanding the drivers of switching banks is vital for banking people to stay competitive since service switching has become a serious issue in the marketing of services.

Switching behavior for goods has been studied by many researchers (Day et al., 1979; McAlister and Pessemier, 1982; Menon and Kahn, 1995; Heide and Weiss 1995) [18, 37, 38, 29]. However, switching behavior of consumers regarding services has got a scant attention of researchers mainly in the field of financial services (Friedman and Smith, 1993; Keaveney, 1995; Mittal and Lassar, 1998; Grace and O’Cass, 2003) [22, 32, 40, 27]. Switching behavior for services is different due to its distinguished characteristics, i.e. intangibility, inseparability, perishability, heterogeneity and ownership (Keaveney, 1995) [22]. Even within the service domain, each service differs significantly based on the extent of customer participation (Grace and O’Cass, 2003) [27]. There is a little research focusing on factors affecting the switching behavior of banking customers. This research seeks to understand banking behavior of customers by focusing on reasons attributed to switching service providers in retail banking industry. Justification of such an investigation is laid by tracking the changing consumers’ behavior in banking industry based on an analysis of existing literature.

1.1 Concept of Customer Switching
Various authors have attempted to define switching behavior from time to time. Customer switching is incurred by buyers for stopping transaction relationships and initiating a new relation with some other business. (Oyeniyi and Abiodun, 2010) [43].

Correspondence
Pratap Chandra Mandal
Associate Professor
(Marketing), VIT Business School, Room no. 620,
Silver Jubilee Tower, VIT University, Vellore,
Tamil Nadu, PIN, India.
Customer switching is defined as an act of being loyal to one service category, but switch from one service provider to another, as a result of dissatisfaction or any other related problems. (Keaveney and Parthasarathy, 2001) [33]. Customer switching represents a dynamic process that develops over a particular period of time and results in relationship ending. (Bejou and Palmer, 1998) [8].

After analyzing these definitions one can conclude that whether switching is a process or decision, it is certain that switching behavior includes ending relationship with one service provider by stopping purchasing products and services and establishing same relationship with another provider of same category. Garland (2002) [25] estimated customer defection in personal retail banking of New Zealand using Juster scale’s probabilistic measurement method and found actual overall defection rate being 5 per cent. Trubik and Smith (2000) [50] developed a model of identifying customers at risk of leaving the bank in Australia by studying the responsible attributes. This model could not be generalized as findings were related to only one organization. Few studies have focused on complaining behavior as pre-switching behavior. Likewise, Colgate and Hedge (2001) [16] studied switching as a dynamic process that evolves overtime and culminates in exit through complaining. Their study resulted that factors considered important for defection have some influence over complaining behavior.

1.2 Customer Switching in Different Industries

Researchers have attempted to explore post-switching behavior in form of word-of-mouth and search for new services (Keaveney, 1995) [32], Colgate and Lang (2001) [17] investigated switching barriers, a reverse phenomenon to switching drivers. Their study proved empirically that apathy and negativity were the most important switching barriers, respectively, in retail bank and insurance industry. Yanamandram and White (2006) [53] also studied switching barriers but in a different context of business-to-business services and by adopting a different methodology. Their study resulted in applying qualitative techniques that alternative service providers and switching cost was the most considerable switching barrier that prevented dissatisfied customers from switching. Valenzuela (2010) [51] investigated the factors determining switching barriers and the effect of type of bank, gender and education on customers’ perception of switching barrier. Tesfom and Birch (2011) [46] examined linkages between age and switching barriers in retail banking industry. Switching behavior of consumers in other service industries has also been one of major thrust among researchers. While Grace and O’Cass (2003) [27] explored switching behavior in child-care services, Jayasimha et al. (2008) studied switching intentions in insurance industry. Edvardsson and Roos (2003) [21] examined switching behavior in telecommunication industry.

2. Dimensions affecting Customer Switching in Retail Banking

Switching bank is mostly an outcome of multiple incidents, not just a single one unlike other service industries because bank customers are locked into a relationship with their service provider (Gerrard and Cunningham, 2004) [20]. Keaveney (1995) [33] proposed the first model of switching behavior in service industries based on more than 800 critical incidents that cause customers to switch and categorized these incidents into eight main causal variables including price, inconvenience, core service failures, service encounter failures, failed employee responses to service failures, competitive issues, ethical problems and involuntary factors. This study was based on 45 diverse services including banking industry but Keaveney’s model requires further testing of proposed switching factors on specific service industries (Andreassen, 1988; Keaveney, 1995; Mittal and Lassar, 1998) [1, 40, 32].

The existing literature focuses on the major factors influencing customers’ bank switching behavior, such as price, reputation, service quality, effective advertising competition, involuntary switching, distance, and switching costs, reputation, service quality, effective advertising, involuntary switching, distance, and switching costs impact customers’ bank switching behavior. The findings also reveal that the young and high-income groups are more likely to switch banks. When a consumer changes from one bank to another bank, it can be caused by single or multiple events. Six events which were considerably important in order to understand the factors of bank switching were labeled as inconvenience, services failures, pricing, unacceptable behavior, attitude or knowledge of staff, involuntary mentioned incidents and attraction by competitors (Gerrard & Cunningham, 2004) [26]. In banking industry, single incident or event of switching from bank to bank is far less than multiple incidents for switching. In case of other financial service providers, customers are known to switch institutions after they face multiple problems. Moreover in banks unlike other financial institutions, customers are not bonded to any contractual relationship biding the customers to stay in the same bank. Other preferences documented included obligation to open accounts with banks where the employer would want an employee to open in order to be able to transfer salaries. Other factors that may make it obligatory for the customers to have bank accounts with specified banks include usage of safe deposit vaults, credit card facilities or even nearness of the banks’ vicinity.

Switching behavior in banking may be explored based on certain dimensions. Studies conducted based on some of those dimensions are discussed below.

2.1 Service Quality

Poor service quality is one of the determinants of poor loyalty and unfavorable behavioral intentions (Aydin and Özer, 2005; Zeithaml et al., 1996) [4]. In banking industry, switching behavioral responses has also been related to perceptions of quality (Rust and Zahorik, 1993; Yavas et al., 2004) [46, 56]. A high-level of service quality is essential in order to prevent banking customers from switching (Zeithaml et al., 1996) [56]. Likewise, Chakravarty et al. (2004) examined the role of relationship in customer switching behavior through various factors including service quality dimensions and relationship dimensions. Mavri and Ioannou (2008) [36] examined the switching behavior of Greek banking consumers and concluded that product and service quality in combination to bank’s brand name had positive effect in decreasing churn behavior while demographic variable including gender and education level had little impact on switching. In contrast to previous researches Singh and Kaur (2011) [47] found no significant effect of service quality (measured through empathy and
assurance) on customer switching in banking. Singh and Kaur (2011) [47] studied switching intentions through various relational factors in Indian banking industry and revealed that service quality, satisfaction and trust significantly affect switching barriers. Based on extensive literature review on the relationship between service quality and switching behavior, authors opted to use inconvenience, reliability and staff that deliver services as the three dimensions of service quality in this study.

2.2 Price
The pricing factor includes all critical switching behaviors that involved prices, rates, fees, charges, surcharges, service charges, penalties, price deals, coupons, and/or price promotions. From the consumer’s perspective, price is what is given up or sacrificed to obtain a product or service (Zeithaml, 1988) [55]. Unfavorable price perceptions can cause customers to switch banks (Campbell, 1999) [11]. Gerrard and Cunningham (2004) [26] validated Keaveney’s (1995) [32] proposed switching model in Singapore banking industry and found price as the most influential factor among all. The study conducted by Clemes et al. (2010) [15] explored switching costs, price, service quality as the important factors influencing switching behavior in Chinese banking industry. Their findings also revealed that young age and high-income group are more likely to switch banks.

2.3 Customer Commitment
Commitment is an indication that both parties are interested in maintaining and strengthening their relationships (Dwyer et al., 1987; Morgan and Hunt, 1994) [19, 41]. It is a desire that materializes in the realization of implicit and explicit promises (Singh and Kaur, 2011) [47]. It has been identified as an important factor for retaining a customer (Morgan and Hunt, 1994) [41]. Fullerton (2005) [23] investigated the impact of customer commitment on switching intentions and found that committed banking customers were less likely to switch in comparison to those who lacked commitment towards their bank. Bansal et al. (2004) [6] stated that commitment is a force that binds customers to continue to purchase services from existing service provider.

2.4 Reputation
Reputation has been defined as “an amalgamation of all expectations, perceptions and opinions of an organization developed over time by customers, employees, suppliers, investors and the public at large in relation to the organization’s qualities, characteristics and behavior, based on personal experience, hearsay or organization’s observes past actions” (Bennett and Kottasz, 2000) [19]. Reputation is a force that has potential to attract customers and to influence selling-buying processes (Trotta and Cavallaro, 2012) [49]. Reputation is a key asset to firms as it is valuable, distinctive, difficult to duplicate, non-substitutable and provides the firm with a sustainable competitive advantage (Wang et al., 2003; Hall, 1993) [32, 28]. Gerrard and Cunningham (2004) [26]. Identified bank reputation as one of the major factors that cause customers to switch banks in the Asian countries.

2.5 Effective Advertising Competition
There is little research on the relationship between advertising and switching behavior in financial industry as many researchers have focused on marketing strategies rather than pure advertising (Zhang, 2009) [57]. Advertising refers to activities undertaken to increase sales or enhance the image of a service, firm or business and the primary purpose of advertising is to inform the potential customer of the characteristics of products or services (Cengiz et al., 2007) [12]. The role of advertising in financial service industry is controversial. For example, according to Hite and Fraser (1988) [10], professional services advertising including bank advertising can change customers’ attitudes and perceptions towards the service provided, whereas, in another study conducted by Clemes et al. (2010) [15], advertising, as a means of marketing communication, was blamed for reinforcing the similarity of financial service providers, rather than differences. Clemes et al. (2010) [15] also found negative relationship between effective advertising competition and switching behavior in Chinese retail banking industry.

2.6 Responses to Service Failure
It includes the problems arising when dealing with service failures, conflict situations, responding to complaints (involved negative response, no response or forced response) (Zikiene and Bakanauskas, 2009) [58]. Due to the characteristic of inseparability, financial services are often provided at a service counter with direct contact between a bank’s employees and the customer, or by telephone, or by having the customers interact with the bank’s automatic teller machines (ATM). According to Michel (2004) [19], although banks try to provide error-free services, service failures are inevitable because the bank-customer interaction is influenced by many uncontrollable factors. Keaveney (1995) [32] found that over 17 per cent of all service switching incidents were caused in part by unsatisfactory employee responses to service failures.

2.7 Customer Satisfaction
Customer satisfaction is an output, resulting from the customer’s pre-purchase comparison of expected performance with perceived actual performance and incurred cost (Churchill and Surprenant, 1982) [14] whereas cumulative customer satisfaction is an overall evaluation based on the total purchase and consumption experience with a product or service over time (Aydin et al., 2005) [5]. Moutinho and Smith (2000) [42], in their study of customer satisfaction with human and automated banking using modeling technique, revealed that bank customer attitudes towards the human provision of services and subsequent level of satisfaction will effect bank switching more than when the same service delivery made through the automation. Athanassopoulos et al. (2001) [3] examined the impact of customer satisfaction on switching intentions as one of behavioral responses and found negative relation between both constructs. Further findings suggested that there are numerous factors materializing the intention of a customer to defect to a different supplier of services and these may enable or disable the deflections.

2.8 Involuntary Switching
Keaveney (1995) [32] described involuntary switching as the factors beyond the control of either customers or the service providers. East et al. (2008) [20] defined involuntary switching as an unwilling behavior by customers. Many researchers have proved that involuntary switching is one of the contributing factor encouraging customers to switch in
service industry (Friedman and Smith, 1993; Ganesh et al., 2000; Khan et al., 2010) [22, 24, 34]. Anjum et al. (2012) [2] found distance being most important factor and involuntary switching being least important factor for switching among Indian private banking customers.

2.9 Service Products
Service products include a core service, plus additional specific features, service specifications and targets (Rust and Oliver, 1994) [45]. Although financial products and services are nearly identical in nature (Beckett et al., 2000) [7], many researchers have demonstrated that banking products influence customer’s decision to switch (Kiser, 2002) [135]. In a technology-driven, fast-paced environment, delivering a wide range of products to customer is essential for businesses’ success and survival. Service products associated with technologies can reduce transaction costs, switching rates and encourage customers to create services outcomes on their own (Bitner et al., 2002) [10]. The less innovated banks which cannot offer technology based quick, convenient and higher quality service delivery effectively may cause customers to switch banks (Zhang, 2009) [57].

3. Discussions and Conclusions
Customer switching results in loss of customers which in turn results in lower revenues and lower costs. The paper discussed the various concepts related to customer switching. The paper also discussed about customer switching across different industries. The paper focused on customer switching in retail banking. It performed a review of the different causes of customer switching in retail banking. It focused on the dimensions affecting customer switching in retail banking. The review will help both academicians and practitioners to understand the different dimensions affecting customer switching in retail banking. This understanding will help banks to improve their services better and retain their customers.

4. References
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