International Journal of Research
Available at https://edupediapublications.org/journals
p-ISSN: 2348-6848
e-ISSN: 2348-795X
Volume 03 Issue 11
July2016

Effecting Factors of Customer Switching Behavior and Customer loyalty Behaviors in the Banking Industry

***Chukariya Satish Kumar **Dr.R.K .Sawalikar**

* Research Scholar, Department of Business Management, RTM University, Nagpur, satish.chukariya@yahoo.co.in
** Department of Business Management *Sardar Patel Mahavidyalaya, Chandrapur*

ABSTRACT

This Study is to investigate the factors affecting customer switching behavior and loyalty in the banking Industry. It is an applied causal study, in which data analysis is done via structural equations method. The research population includes customers of State Bank, Ramanthapur, Hyderabad. For data collection, a questionnaire was randomly distributed between 100 customers of the above mentioned bank, among which, 89 questionnaires were returned and analyzed. The reliability and validity of the questionnaire were confirmed using Cronbach's Alpha. Results from data analysis show that these factors i.e service quality, customer satisfaction, distance, reputation have negative and positive impacts on customer switching behavior and loyal, respectively.

Keywords: Customer Switching Behavior, Loyalty, Service Quality, Customer Satisfaction, Distance.

INTRODUCTION

With the intense competition and increasing globalization in the financial markets, bank management must develop customer-oriented strategies in order to compete successfully in the competitive banking environment. The longer a bank can retain a customer, the greater revenue and cost savings from that customer. However, customers are also more prone to changing

p-ISSN: 2348-6848
e-ISSN: 2348-795X
Volume 03 Issue 11
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their banking behavior when they can purchase nearly identical financial products provided by the banks. In order to stay competitive, bank managers need to understand the factors that influence and determine consumer's bank switching behavior.

The creation of a long-term relationship with customers is an important strategy for the majority of financial institutions in competitive markets. Banking industry should be profitable and have durable relationships with the customers to develop and survive in today's turbulent environment. Several studies show that bank profitability is closely correlated with customer-loyalty and customer-retention. In order to reduce their expenses and minimize the costs of attracting new customers, banks always try to prevent losing their current customers; therefore, it can be said that there is a close relationship between customer loyalty and bank profitability.

as increasing number of banks, using new technologies in service-provision, privatizations of

them and limitation of existing resources, necessitates, more than ever, the investigation into

customer switching behavior in banking industry for retaining existing customers and acquiring appropriate competitive position. If the bank management obtains a complete understanding of factors affecting customer switching behavior, it can effectively prevent harmful consequences of customer loss and develop long-term customer-relationship.

LITERATURE REVIEW

De-regulation, the advent of new technologies in the financial services industry, and latent financial services impact consumer behavior. Currently, consumers are capable of purchasing

relatively similar financial products provided by different banks. This may expose consumers to the probability of switching to an alternative bank. Customer switching behavior refers to the

condition in which a customer abandons a service provider or a financial institution Several factors affect customer behavior,

among which four factors have been identified as
responsible for customers' service-provider switching:

Customer satisfaction refers to the extent to which customers are happy after receiving products and services. It seems that customer satisfaction is a feeling evoked by the assessment of service quality. The basis and foundation of customer satisfaction are his expectations and perception of services. Every customer has expectations, and if the actual services do not match his/her expectations, he/she will become dissatisfied.

Reputation, as social symbols and/or brand, can significantly affect the performance and survival of the company; moreover, customer decision may be affected by bank reputation. A positive reputation can strengthen customers' trust in the bank. On the other hand, a negative reputation increases the possibility of customers' switching banks.

Service quality in marketing literature refers to a general definition of a customers' assessment of services. It is believed that service quality is the result of comparison between customers'
expectations of service to be received and perceptions of the service actually received . In marketing literature, marketing is defined as: overall customers' assessment of the company's services. The perceived service quality means customer's assessment of his/her expectations of service to be received and perceptions of the service actually received. The concept of service quality includes service delivery process and service outcomes.

Convenience location is regarded as important factor in its performance assessment. Easy communication and convenience accessibility, and appropriate working hours are important to customers. In fact, accessibility refers to having access to the location of service provider, which includes finding clear ways about service provision environment. All these factors depend on the location, and convenience

p-ISSN: 2348-6848
e-ISSN: 2348-795X
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location of the bank is an important factor affecting customer switching behavior, since it has direct impact on customers' accessibility to the banks. Location of service provision is an important factor capable of preventing customers switching behavior. The majority of customers is convenience-seeking clients and expects to receive services wherever and anytime they wish. To service-providers, customer-loyalty is an important source of competitive advantage. Literature review show that to increase the profitability of a service firm, the correlation between customer-loyalty and records of that firm should be investigated. They believe that customer loyalty history includes corporate image, perceived value, etc. The majority of firms develop strategies that encourage customer-loyalty, as this reduces their costs. On the other hand, loyal customers value more the firm and create a positive mental image towards it.

Loyalty: The loyalty as having deep commitment to a product or service that leads to repurchase from the same brand in the future. In addition, customer-loyalty as a relationship between the defined ratios of attitude to support. Moreover, recent studies show that customer-loyalty is based on three factors namely behavior, attitude, and integrated concept of perception.

METHODOLOGY

This is an applied study as it seeks for solutions to improve loyalty and prevent switching behavior of the customers of the banks. It is also a causal research as the researcher tries to investigate the factors affecting customers switching behavior and loyalty in the banking industry.

Field of Study

For collecting the required data, field method was used, in which the State Bank, Ramanthapur, Hyderabad was selected as the field of study.

Data Collection Instrument

A questionnaire was used to investigate the factors affecting customer switching behavior in banking industry. The designed questionnaire includes descriptive section comprised of demographic items (age, gender, educational level, number of visiting the bank per month). To measure questionnaire's indices, a 5-point Liker based scale, as the most common measurement scale, was employed.

Variables considered

Independent Variables: 1. Consumer Satisfaction

2. Reputation

3. Distance

4. Service Quality

Dependent Variables: 1.Switching Behavior

2.Consumer Loyalty

Hypotheses:

The following Hypothesis are formulated for conducting the study

1. Consumer Satisfaction affects the bank's customer switching behavior.

2. Consumer Satisfaction affects the bank's customer loyalty.

3. Bank reputation the bank's customer switching behavior.

4. Bank reputation affects the bank's customer loyalty.

Validity and Reliability of Measurement Instruments

In this study, Cronbach's alpha was used to evaluate reliability. To evaluate and measure the reliability in the initial stages of the research, 30 questionnaires were used for data collection. Cronbach's alpha of 0.706 was obtained. Since it is higher than 0.7, the questionnaire has adequate validity.

Results from Hypotheses

Regarding the results from the hypothesis, it is seen that customer-satisfaction negatively affects customer switching behavior. Therefore, customer satisfaction does not lead to customer switching behavior. In other words, customer dissatisfaction with bank affects customers abandoning the bank. Result from the next hypothesis Regarding the results from the second hypothesis, it is seen that customer-satisfaction positively

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e-ISSN: 2348-795X
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affects customer-loyalty. Therefore, customer-satisfaction causes customer-loyalty. Regarding the results from the third hypothesis, it is seen that bank-reputation negatively affects customers' bank switching behavior. Therefore, there is a significant correlation between a good bank-reputation and weaker customer's intention of switching behavior. Result from the fourth hypothesis Regarding the results from the fourth hypothesis, it is seen that bank-reputation positively affects customers-loyalty. Therefore, there is a significant correlation between good bank-reputation and stronger customer-loyalty.

Summarizing the Results

This study aims at investigating the factors affecting customer switching behavior and customer-loyalty and its outcomes in banking industry. Based on this, some hypotheses were developed. Results from a comprehensive summarization of the research hypotheses show that customer-satisfaction, reputation, superior service quality, and distance have negative impact on customers switching behavior, and do not lead to customers' bank switching behavior. In addition, customer-satisfaction, reputation, superior service quality, and distance have positive effect on customer-loyalty, and lead to customer-retention and new customer-attraction.

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Volume 03 Issue 11
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