DETERMINANTS OF CUSTOMER SWITCHING BEHAVIOUR IN BANKING SECTORS OF NEPAL

A Thesis Proposal

Submitted

By

Ananta Raj Wagle

Central Department of Management

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1. Background of the study

Switching behavior is defined as defection or customer exit (Hirschman, 1970). According to Bronkhurst (1995), switching behavior reflects the decision that a customer makes to stop purchasing a particular service or patronizing the service firm completely. In a bank industry context, customer switching behavior means customers shift from one bank to another (Garland, 2002). The longer a bank can retain a customer, the greater revenue and cost savings from that customer. Maintaining an existing customer in five times cheaper than obtaining a new one as the advertising, sales, and set-up costs can be amortized over a longer customer lifetime (Clemes, Zheng & Gan, 2007; Reichheld & Sasser, 1990). Keaveney (1995) uses a generalized model to examine consumer switching behavior across a broad spectrum of service providers including banks. The model includes eight factors influencing service switching price inconvenience, core service failure, service encounter failure, response to service failure, ethics, competition, and involuntary switching.

Gerrad and Cunningham (1997) also identified six incidents that they consider to be important in gaining an understanding of switching between banks. These incidents were: inconvenience, service failures, pricing, unacceptable behavior, attitude or knowledge of staffs, involuntary seldom mentioned incidents, and attraction by competitors. Colgate and Hedge (2001) identified three general problems, pricing issues (fee, charges, interest rate), service failures (mistake, inflexible, inaccessible, unprofessional), and denied services (denied loan, no advice) that contributed to customers' switching banks in New Zealand. With the intense competition and increasing globalization of the financial markets, building customer loyalty has become a critical strategy for most financial institutions. The banking industry must develop strong relationships with their customers in order to compete successfully in the competitive retail banking environment. Numerous studies have shown that banks' profitability is closely associated with customer retention (Garland, 2002; Reichheld & Sasser, 1990). The longer a bank can retain a customer the greater revenue and cost savings from that customer. Maintaining an existing customer is five times cheaper than obtaining a new one as the advertising, sales, and set-up costs can be amortized over a long customer lifetime (Clemes, Gan & Zheng, 2007; Richheld & Sasser, 1990).

Duncan & Elliot (2002) noted that customer loyalty is an important factor that contributes to an organixations earnings and profits. Loyal customers normally establish a stable relationship with organizations compared to non-loyal customers (Zeithaml, Berry & Parsuraman, 1996). Customers loyalty can contribute to an increase in a firm’s reveneue; reduce customers defections rated; and develop new business through positive word-of-mouth advertising (Reichheld & Sasser, 1990). Thus , at the end of the day, the bank’s assests are not only primarily registered on the balance sheet, but also related to the fact that customers have been successfully retained Scharioth (2002). The deregulation and the emergence of new technology in the financial service industry have had a critical impact on customer behavior. When customers can purchase nearly identical financial products provided by the retail banks, customers are also more prone to change their banking behavior (Beckett, Hewer & How croft, 2000). Chakravarty, Feinberg & Rhee (2004) state that the competitiveness of banking combined with the relative homogeneity of banking products and services appears to make banking particularly susceptible to customer switching behavior. As a result, service quality or product no longer a only factor that banks need to focus on as customers are more value-oriented and cautious in making tradeoffs between benefits and costs (Mazumdar, 1993). To stay competitive bank providers have to understand their customers in order to not only anticipate, but also influencing banking switching behavior (Beckket et al., 2000). Furthermore, a detailed understanding of bank customers’ switching behavior can effectively avoid the harmful consequences of defection, and enhance long-term relationships with customers (Lesss, Garland & Wright, 2007; Andreasen, 1988). Some researchers have studied customers switching behavior in developed countries (Clemess, Gan & Zheng, 2007; Colgate & Hedge, 2001; Gerrard & Cunningham, 2000; Stewart, 1998; Keaveney, 1995). However, limited studies have focused on developing countries (Zhou, 2004). Due to cultural difference consumers' evaluation of service quality and associated constructs such as behavior intention can be considerably different (Smith & Reynolds, 2001; Furrer. Liu & Sudharsan, 2002; Winsted 1997)

There are altogether twenty eight commercial banks in Nepal till now. Nepalese banking sector has faced the problem of switching of customer from one bank to another due to severe competition in related field.

2. Statement of the Problems

Presently Nepalese commercial banks are implementing their all efforts to attack new customers and they are ignoring other side of customers' retaining existing customers. So, customers switching from one bank to another are increasing. Banks are the focus of this study because there is no empirical research conducted about customer switching behavior in context of Nepalese banking industries. In Nepalese economy, banking sector is most emerging and is considered as the vital which has significant contribution over the National GDP. Banking sector is laid at the core level of the service sector business. There has been no empirical research focused on the factors that have impact on bank switching behavior in Nepalese banking industry. Understanding the determinants of customer switching may help to make the congenial climate for employees to retain their customers in favor of organization. The research will be oriented towards the answers of following sub-questions:

a) What is the impact of price on customer switching behavior?

b) What is the impact of reputation on customer switching behavior?

c) What is the impact of service quality on customer switching behavior?

d) What is the impact of location on customer switching behavior?

3. Purpose of the Study

The main objectives of this study will be to analyze the relationship between different Customer Switching Behavior (CSB) predictors and the CSB, more specifically the objectives of the study will be as follows.

i. To examine the impact of price on customer switching behavior.

ii. To examine the impact of reputation on customer switching behavior

iii. To examine the impact of service quality on customer switching behavior.

iv. To examine the impact of location on customer switching behavior.

4. Significance of Study

This study will contribute to existing literature on Customer switching behavior. The study will be conducted inside Kathmandu valley, where customer switching behavior in banking sector is in increasing trends. That means this study will helps the policymakers, researchers, and other people to know about this issue and help for further research on customer switching behavior. This study will help to analyze the status of switching behavior among the people in Nepal which provide good opportunity to analyze the condition of switching behavior in financial sector. This study will be helpful to stakeholders and banks to develop and implement the various program related to this issue. Similarly, this study will be helpful to financial institutions to lunch different schemes and program. It will also help the future researcher for further research on this topic by taking more variables than this study. The general public can also get benefit from this research study at large.

5. Limitations of the Study

As every study is conducted within certain limitations the present study is not an exceptional. The study will be based on a customer switching behaviour in banking sector in Nepal in Kathmandu district, which may not represent the overall scenario of Nepal. Basically, the study is limited with-in the following factors.

1. First, the data from the sample may not reflect the universe; since it is restricted only to the area of Kathmandu and only 120 customers as sample.

2. Second, a self-administered questionnaire will be used as a medium for data collection in this study. This method of data collection has been criticized for being inherently susceptible for the possibility of subject response bias.

3. Third, only four variables related to the bank switching behavior will be selected in this study. Some other variables will not be included; their inclusion may lead to different results. Examples of such dimensions include advertising and involuntary switching.

These are the issues that require closer examination by future researchers.

6. Literature Review

Customer switching means customers forsake one service provider for another and switching has become a focus of research in the service sector (Garland, 2002). Several researchers have investigated the reasons why customers switch service providers (Colgate & Hedge, 2001; Keaveney, 1995; Reichheld & Sasser, 1990). For example, Colgate & Hedge (2001) conclude that price, service failures, and denied services are the most important factors that influence customers to switch banks in New Zealand. - 5 - Some researches explain that the broad evaluative constructs of service quality and satisfaction are related to service switching (Mittal & Laser, 1998; Zeithaml et al. 1996; Bitner, 1990). In general, dissatisfaction is a main factor influencing customers to switch in the insurance industry (Grosby & Stephen, 1987). However, Jones & Sasser (1995) and Reichheld (1993) find that there are also high defection rates among satisfied customers in the manufacture industry. Gierl (1993) finds that the percentage of satisfied brand switchers is even greater than the percentage of switchers who are dissatisfied in the retail environment. However, dissatisfied customers may choose to stay because there are no better alternative providers (Bendapudi & Berry, 1997). Therefore, problems can occur if researchers only focus on broad evaluative concepts of service. It is critical to identify and classify the specific problems, events and nonservice factors that may cause customers' switching behaviour (Gardial, Flint & Woodruffe, 1996; Levesque & McDougall, 1996b; Zeithaml et al., 1996).

6.1 Theoretical Review

Bass (1974) initially applied brand-switching models to analyze market share in the goods market. However, for services, consumer switching behavior may be different because services are distinguished from goods based on five special characteristics: intangibility, inseparability, heterogeneity, perishability, and ownership (Clemes, Mollenkopf, and Burn, 2000). These special characteristics usually result in the absence of a tangible output in services and they distinguish services from goods (Gronroos, 1990).

Service switching is a growing research area in marketing. Several studies have revealed that the following factors contribute to customer switching: dissatisfaction in the insurance industry (Crosby and Stephen, 1987), service encounter failure in the retail industry (Kelly, Hoffman, and Davis, 1995), and perceptions of quality in the banking industry (Rust and Zahorik, 1993). Furthermore, previous studies have highlighted that service quality and satisfaction are related to service quality and satisfaction are related to service switching (Bitner, 1990; Zeithaml, Berry, and Parasuraman, 1996). Although it is acknowledged that service quality and customer satisfaction are important drivers of service switching, researchers have emphasized the need to shift away from a sole focus on these broad evaluative concepts of service. Instead emphasis is being placed on classifying the specific problems, events and non-service factors that may cause service switching (Levesque and McDougall, 1996; Zeithaml, Berry, and Parasuraman, 1996).

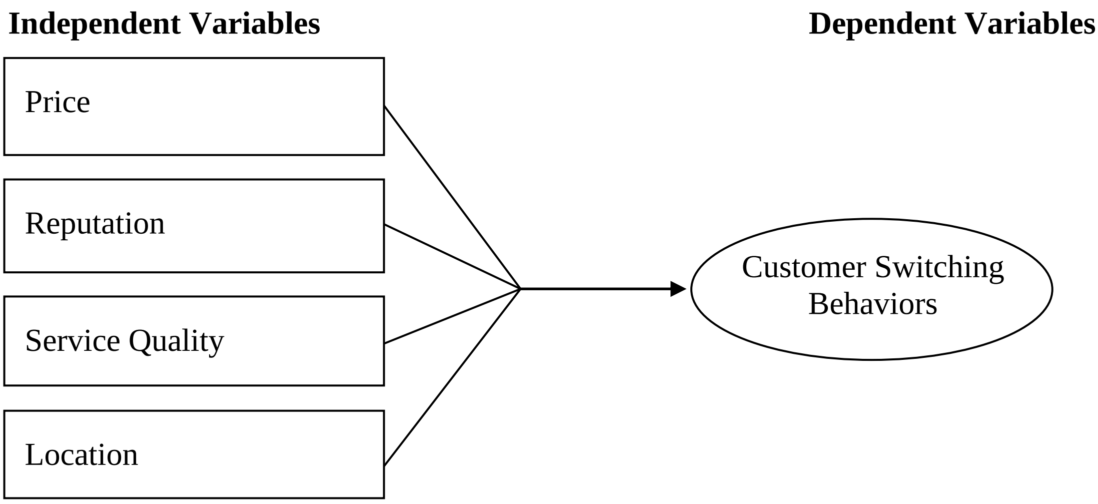
Keaveney (1995) uses a generalized model to examine consumer switching behavior across a broad spectrum of service providers including banks. The model includes eight factors influencing service switching: pricing, inconvenience, core service failure, service encounter failure, response to service failure, ethics, competition and involuntary switching. However, Mittal, Ross, and Baldasare (1998) indicated that the unique characteristics of switching behavior in specific service contents such as banking may be masked when generalized models are directly applied. For example, even though a problem may occur frequently and cause switching in some service industries, it does not necessarily mean that the problem will be an important indluence on a customer’s eventual decision to switch banks. In addition, Keaveney’s (1995) switching model does not accurately assess the relative weight of these issues on a customer’s decision to switch bank service providers (Colgate and Hedge, 2001). Therefore, additional research is necessary to ascertain the applicability of Keaveney’s (1995) generalized switching model to the banking industry.

Stewart (1998) and Gerrard and Cunningham (2000) have studies customer switching behavior in the banking industry. Stewart (1998) suggested four types of switching incidents that relate to how customers were treated: facilities, provision of information and confidentiality, and services issues. Gerrard and Cunningham (2000) also identified six incidents that they considered to be important in gaining an understanding of switching between banks. These incidents were: inconvenience, service failures, pricing, unacceptable behavior, attitude of knowledge of staff, involuntary/seldom mentioned incidents, and attraction by competitors. In addition, other researchers, such as Lewis and Bingham (1991) have summarized reasons why customers switch banks. However, the authors investigated a range of matters associated with the banker-customer relationship, thus these studies' contribution to the development of switching behavior was limited. Colgate and Hedge (2001) identified three general problems, pricing issues (fee, charges, interest rate), service failures (mistake, inflexible, inaccessible, unprofessional), and denied services (denied loan, no advice) that contributed to customers' switching banks in New Zealand.

Although many international studies emphasize why customers switch service organizations (Keaveney, 1995; Levesque and MCDougall, 1999; Zeithmal, Berry, and Parasuraman, 1966) and switching behavior importance (Mittal and Lassar, 1998; Reichheld, and Sasser, 1990), there has been little empirical research focused on the factors that have impact on bank switching behavior in the New Zealand banking industry.

6.2 Conceptual Frame work

This research work has been designed as the following chart has been presented. So, theoretically present research has been analyzed as per the following chart shown the relationship between dependent and independent variables of customer switching.



Following hypotheses has been formulated for the study:

H1: There is positive relationship between price factors and customers' switching behaviour.

H2: There is positive relationship between reputation factors and customers' switching behaviour.

H3: There is positive relationship between service quality and customers' switching behaviour.

H4: There is positive relationship between location and customers' switching behaviour.

7. Research Methodology

The research methodology includes research design, population and sample, sources of data, data collection & processing procedure and data analysis tools & techniques. This study will be based on both descriptive and correlation research design in order to achieve the objective of the study.

7.1 Research Design

This research study will be conducted into the format of correlational research design. Research design is the specification method and procedure for acquiring the information needed. It deals with what information is to be collected by objective and economic procedures.

7.2 Sources of Data

The primary data will be used in this study to identify the causes of switching behaviours and questionnaires will be asked to the customers who partially or completely switch to other banks. Primary data will be collected by distributing questionnaire personally visiting the sample organizations. The fully structured six-point Likert scale questionnaires will be developed for the respondents.

7.3 Population and Sample:

The target population of this study includes all the customers of Nepalese Banking sector (Kathmandu Branch). Ideally, to make generalizations about such population, one should start with a sampling frame from which a random sample would be drawn. convenient sampling approach will be followed as the best possible alternatives. To ensure high degree of representation of customers in the sample, many questionnaires will be distributed in various locations to reach wide range of customers.

7.4 Method of Analysis:

The responses from the customers will be categorised, tabulated, processed and analysed using different methods. Frequency distributions, means and standard deviation, Correlation, ANOVA will be calculated. SPSS software application will be used for interpreting data.

8. Chapter Plan

The study is divided into five chapters.

Chapter I: Introduction

This chapter will explains background of the study, Statement of the problem, Objectives of the study, Significance of the study, research hypothesis and limitation of the study.

Chapter II: Review of Literature

This chapter will include review of literature which incorporates the theoretical review, the review of previous studies, conceptual framework and research gap.

Chapter III: Research Methodology

This chapter will includes research design, Justifications for the Selection of the Unit, Population and sample size, Nature and Source of Data, Data Collection Procedures, Data Processing and Analysis Tools.

Chapter IV: Data Presentation and Analysis

This chapter is Data presentation and analysis. This chapter will include Data presentation, Data analysis and Major finding of the study.

Chapter V: Conclusion

This chapter will deal with summary, conclusion and implications, reference and appendices will also be attached at the end of the study.

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