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CONTENTS

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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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UNPUBLISHED DISSERTATIONS AND THESES

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

RETAIL BANKING: EFFECT OF FACTORS ON CUSTOMER SWITCHING BEHAVIOUR

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ABSTRACT
In order to have profitability and growth, it is very important for banks to retain customers. When customers close their accounts or move their main accounts from a bank to another one, they carry away with them the revenue generating potential of the bank. It therefore becomes important for retail banks to understand the effect of various factors on customer switching behavior. An understanding of the effect of various factors can help banks to devise strategies to reduce customer switching and retain their customers. This research studies the effect of core service failure, service encounter failure, pricing and inconvenience on customer switching behavior in the retail banking industry. The results of the study reveal that core service failure and inconvenience have a significant impact on customer switching while service encounter failure and pricing do not have a significant impact.

KEYWORDS
Customer switching behavior, retail banking.

INTRODUCTION
Service organizations are the major source of economic activity across the world. Along with the growth of the services sector, the consumption pattern of people has also undergone a lot of changes. The increased competition in the services sector has resulted in more choices and better value for consumers. Service quality or the product is no longer the only factor that customers look for while choosing a service provider. They are today more value-oriented and cautious and compare benefits that will accrue to them and costs that they will have to incur before making their purchase. This being the case, a very relevant question that needs to be asked is whether a customer would be so committed that he will continue to make all his purchases from one service provider when he has so many choices around him.

Given the fact that customers have many options to choose from, it is important for service providers to not only attract customers but also to retain them. It is true that companies can replace 'lost' customers with a new set of customers but the costs of acquisition are much higher than the cost of retention. Doing business with existing customers results in a lot of savings for a company. The companies can save on costs of advertising which they would otherwise have to spend to attract new customers; they can save on cost of setting up accounts for the newly acquired customers; they can save on costs of getting the new customers acquainted with the procedures of the company; they can also save on costs of inefficient dealings that may occur initially until the new customer fully learns the procedures of the company (Mittal and Lassar, 1998). Besides these savings, those customers who remain loyal to a company generate profits at an increasing rate each year they stay with a company as they usually spend more, would be willing to pay higher prices, would refer new clients and would be less costly for the companies to do business with (Reichheld and Sasser, 1990). When continuing customers stop purchasing from a company, they take along with them that very crucial profit generating potential of the company.

The financial services industry in India is one which has undergone a lot of changes over the past two decades. This industry has also seen the emergence of new technology in various applications. These changes have had a critical impact upon consumer behavior. With intense competition and increasing globalization of the financial markets, building customer loyalty and retaining customers has become a critical strategy for most financial institutions. Retail banking in India has fast emerged as one of the major drivers of the overall banking industry and has witnessed enormous growth in the recent past. The changes in the consumption pattern of customers which have resulted out of the explosion of service economy have propelled the retail banking business. However, the competitiveness of banking along with the relative homogeneity of banking products and services have made banking at risk to customer switching behavior (Beckett, Hewer and Howcraft, 2000; Chakravarty, Feinberg and Rhee, 2004) and this could have a serious negative impact on a bank's market share and profit.

REVIEW OF LITERATURE
Customer switching refers to a customer's decision to stop purchasing certain products or services from a company or to stop purchasing or shopping from the company completely (Bolton and Bronkhurst, 1995; Boote, 1998). Customer switching or churn is the opposite of customer loyalty and is also referred to as customer defection or customer exit (Hirschman, 1970; Stewart, 1994). Switching may be complete or partial, depending on whether the customer's decision results in total loss of the customer's business for the company or the loss of any portion of the customer's business. When customers transfer all their businesses to another firm or close their accounts with a firm, it results in total switching. Partial switching happens when a customer shifts some part of his purchase to another firm (Roos, Edvardsson and Gustafsson, 2004). Switching, whether total or partial, results in a reduction in the customer base of a bank.

SWITCHING BEHAVIOUR
Most early researches into switching focused on a few variables like service quality, satisfaction, service encounters, alternative attractiveness and social influences as antecedents of service switching (Bitner, 1990; Mittal and Lassar, 1998). The earliest efforts to build a generalisable model of customer switching behaviour in the service industry were undertaken by Susan Keaveney (1995). The study covered forty five different services and the researcher categorized the various problems identified into eight factors, of which six related to service problems and the remaining two to non-service problems. The decision to switch a service provider is most often not a clear cut and planned decision made by a customer as a consequence of a single critical incident. On the other hand, combinations of causal factors which customers encounter during multiple critical incidents interact over time to cause customer switching (Keaveney, 1995; Rust and Zahorik, 1996). Identifying and classifying the causal factors that influence a customer's final decision to switch is an important step in understanding the process of customer switching, although it will not completely explain the process of switching.

There have been many studies conducted in the various service sectors. The type of bond that exists between the service provider and the customer is different in different service sectors and so the effect of various factors on customer switching need not be the same. Retail banking is an industry where contractual and relational bonds exist between a customer and the retail bank and the existence of these bonds make the process of switching difficult and complex (Rust and Zahorik, 1996). Stewart (1998) identified bank charges and their implementation, bank facilities and their availability, information availability and confidentiality and treatment of customers by the bank as four switching incidents in the banking context. Levesque and McDougall (1996) identified mistakes on account, employee willingness to help and location of the bank as important factors that influence customers to switch from a bank. Ennew and Binks (1996) studied the impact of service quality and service characteristics on customer retention in small business and their banks in the UK. Colgate and Hedge (2001) studied the retail bank switching behavior of customers in Australia and New Zealand and identified pricing, service failures, and denied services as the major factors that influence bank switching behavior. Service failures, which were the second most influential factor in switching according to the study, comprised of service encounter failures, core service failures and inconvenience issues.

SERVICE ENCOUNTER FAILURES

Service encounter is a period of time during which a customer interacts directly with a service provider and is also called as "Moment of Truth". It has been defined by Suprenant and Solomon (1987) as "a dyadic interaction between a customer and service provider". During service encounter, customers and service personnel interact with each other and play out certain roles. The roles played out involve "interpersonal dynamics" between the customer and the service provider (Solomon, 1985). Service encounters failures are those failures that happen during the personal interactions between customers and employees of the service firm. It is attributed to some aspect of the service provider's behaviour or attitude (Keaveney, 1995).

CORE SERVICE FAILURES

When the service itself fails due to mistakes or technical problems, then such failures are core service failures and include mistakes, billing errors and service catastrophes (Keaveney, 1995). Core service failures are outcome failures and the customer may not be able to use the service when such failures occur. In such cases, the organization fails to deliver what was promised to the customer and such failures can result in the loss of economic or social resources for customers. In their attempt to recover the service failure, service providers may offer customers economic resources in the form of compensation like discount or social resources in the form of apology (Ennew and Schoefer, 2003).

PRICING

In the financial services industry, price has a wider implication than in several other service industries (Clemes, Gan and Zhang, 2010). Customers consider price while they make a purchase (Levesque and McDougall, 1996). The pricing factor includes all fees which are implemented, any charges that are involved and the interest rates charged and paid. Customers look at the fairness of price and any perception of unfavourable price can influence customers to switch banks (Campbell, 1999). Colgate and Hedge (2001) identified price as the most important factor that influenced bank customers to switch in Australia and New Zealand. In Keaveney's study (1995), the pricing factor included prices, rates, fees, charges, surcharges, service charges, penalties, price deals, coupons and/or price promotions.

INCONVENIENCE

In this fast paced world, convenience is a very important factor which influences customer's evaluation about a company's product or service (Levesque & McDougall, 1996). In the case of customers who want face to face, personal delivery of their banking services, geographical inconvenience is a critical factor that influences their switching behavior (Gerrard & Cunningham, 2004). Convenience can encourage customers to remain with their current bank, even if they are not very satisfied with services of the bank (Lee & Cunningham, 2001). The inconvenience factor includes all situations in which the customer feels inconvenienced by the service provider's geographic location, operation hours and the waiting time (Keaveney, 1995).

SIGNIFICANCE OF STUDY

The increased competition of retail banking coupled with increasingly demanding consumers, has prompted Indian banks to recognize that the key to sustained profitability and growth is to build long-term relationship with customers and to reduce the risk of customers switching to competing banks. Having a thorough understanding of the factors which influence a customer's decision to switch can help avoid the harmful consequences of switching behavior. The effect of various factors on switching will help banks to understand how much of the switching are due to factors within the bank's influence and to what extent banks must invest in service initiatives to improve customer retention rates.

OBJECTIVES OF THE STUDY

From previous researches, the major factors that influence customers' bank switching behavior are service encounter failures, core service failures, inconvenience and pricing. Therefore, this study seeks to identify the effect of these factors on the switching behavior of customers in the retail banking industry in the Indian context.

- To study the influence of service encounter failure on customer switching behavior
- To study the influence of core service failure on customer switching behavior
- To study the influence of pricing on customer switching behavior
- To study the influence of inconvenience on customer switching behavior

HYPOTHESES

Customer switching happens when customers close their accounts with a bank or when customers move their principal account from one bank to another.

H1: Service Encounter Failure has a positive influence on customer switching behavior.

Service encounter failure includes all critical incidents related to the interaction between the service provider and customer and includes rude, inflexible, inaccessible and unprofessional behavior of service provider.

H2: Core Service Failure has a positive influence on customer switching behavior.

Core service failure includes all critical incidents due to mistakes or other technical problems with service and includes mistakes, corrections and service catastrophes as a result of which customer lost time or money.

H3: Pricing has a positive influence on customer switching behavior.

The pricing factor includes all items related to fees and charges, interest rates or information regarding them.

H4: Inconvenience has a positive influence on customer switching behavior

Inconvenience includes all incidents where the customers feel inconvenienced by aspects of the bank and includes waiting and location.

RESEARCH METHODOLOGY

SAMPLING DESIGN

Five districts in Kerala representing the different regions of Kerala were selected. The sample was drawn from these five districts of Kerala. The data was collected from the sample in such a way so as to include males and females with bank accounts belonging to different occupations and different income levels. The sample size for the study is 150 after elimination of incomplete and unsuitable questionnaires collected from respondents.

SURVEY INSTRUMENT

The questionnaire consists of four sections. In the first section, respondents were asked whether they had closed their account with a bank during the past three years or if they had moved their principal account from a bank to another bank during the past three years. In the second section, respondents were asked to evaluate their experiences with the bank. The second section was for customers who have switched banks, either closed their accounts or moved their principal account from a bank. Thos respondents who have not switched banks were asked to mark their banking experience given in section three. The last section investigates personal information of the respondents. In the second and third sections, a five point scale was used with anchors of Extremely Unimportant and Extremely Important. Customer switching behavior was measured on a dichotomous scale as Yes or No.

QUESTIONNAIRE DEVELOPMENT

Service Encounter failure was measured using four items and was adapted from Colgate & Hedge's (2001) study. Core service failure was measured using seven items and was developed from previous literature (Colgate & Hedge, 2001: Keaveney, 1995). The pricing construct was measured using five items and has been adapted from Colgate & Hedge's (2001) study. Inconvenience was measured using six items and was developed from previous literature (Colgate & Hedge, 2001: Keaveney, 1995).

DATA ANALYSIS

The dependent variable in the study, being dichotomous, binary logistic regression has been used as the tool in data analysis. Logistic regression may be thought of as an approach that is similar to that of multiple linear regression, but takes into account the fact that the dependent variable is categorical.

LIMITATIONS OF THE STUDY

For the study, only four factors were considered. However, there may be other factors which have an impact on switching behaviour have not been considered. The research focuses on past behaviour and not future behavioural intentions. The study is also based on the responses from sample chosen by convenience.

RESULTS AND DISCUSSION

RELIABILITY

Cronbach's Alpha was applied to test the inter item consistency reliability of the measures. Cronbach's alpha value indicates how well the items in a set are positively correlated to one another and the closer the reliability coefficient is to 1, the better. The Cronbach's alpha value for all the independent variables is above 0.80 (Table1). Thus the internal consistency reliability of the measures used in this study can be considered to be good.

TABLE 1: RELIABILITY

Variable	Cronbach's Alpha
Service encounter failure	0.895
Core service failure	0.883
Pricing	0.900
Inconvenience	0.865

SAMPLE AND RESPONSE RATE

A total of 225 questionnaires were distributed to the sample and 182 questionnaires were returned. From this 32 questionnaires were eliminated as they were incomplete and found not suitable for the study. This resulted in 150 completed usable questionnaires and a usable response rate of 66.7%.

DESCRIPTIVE STATISTICS OF DEMOGRAPHIC CHARACTERISTICS

From the 150 usable questionnaires, 70 respondents (46.7%) switched banks during the last three years, while 80 respondents (53.3%) of the respondents did not switch banks. Among the respondents, 83 (55.3%) of them were males and 67 (44.7%) of them were females. The age group 36-45 years constituted 35.3% of the sample, 26-35 years constituted 25.3% and 46-55 age constituted 21.3% of the sample. The dominant groups in the sample belonged to the salaried category (42.7%) and the professional category (21.3%). The majority of the respondents had an annual income of Rs 2-5 lakhs (32%) and Rs 5-8 lakhs (21.3%). The data in Tables 5.15-5.18 show the descriptive statistics of respondents who switched their banks and those who did not switch banks.

MULTICOLLINEARITY

The Pearson Correlation Matrix was used to examine the correlation between the four independent variables. The results show that the correlations are all below 0.80 (Table 2) indicating that there is no multicollinearity between the independent variables in the regression model used in the study

TABLE 2: CORRELATIONS

		Servencountfail	coreservicefail	pricing	Inconvenience
servencountfail	Pearson Correlation	1	.554**	.395**	.428**
	Sig. (2-tailed)		.000	.000	.000
	N	150	150	150	150
coreservicefail	Pearson Correlation	.554**	1	.467**	.324**
	Sig. (2-tailed)	.000		.000	.000
	N	150	150	150	150
Pricing	Pearson Correlation	.395**	.467**	1	.426**
	Sig. (2-tailed)	.000	.000		.000
	N	150	150	150	150
Inconvenience	Pearson Correlation	.428**	.324**	.426**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	150	150	150	150
**. Correlation is significant at the 0.01 level (2-tailed).					

The value of Nagelkerke's R^2 is 0.441 (Table3), which indicates that the model is good.

TABLE 3: MODEL SUMMARY

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	147.179[a]	.330	.441

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

The **Variables in the Equation** table (Table 4) shows the logistic coefficient (B) for each predictor variable. The logistic coefficient is the expected amount of change in the logit for each one unit change in the predictor. The logit is what is being predicted; it is the odds of membership in the category of the outcome variable with the numerically higher value. The closer a logistic coefficient is to zero, the less influence it has in predicting the logit. The table also displays the standard error, Wald statistic, *df*, Sig. (*p*-value); as well as the Exp(B) and confidence interval for the Exp(B). The Wald test (and associated *p*-value) is used to evaluate whether or not the logistic coefficient is different than zero. In the case of core service failure and inconvenience, the p value is extremely small and so it can be concluded that each of these predictors is significantly associated with switching. The Exp(B) is the odds ratio associated with each predictor.

Predictors which increase the logit are expected to display Exp(B) greater than 1.0, those predictors which do not have an effect on the logit will display an Exp(B) of 1.0 and predictors which decrease the logit will have Exp(B) values less than 1.0.

TABLE 4: VARIABLES IN THE EQUATION

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	servencountfail	.367	.242	2.300	1	.129	1.443
	coreservicefail	.509	.211	5.807	1	.016	1.664
	pricing	-.085	.235	.131	1	.717	.918
	Inconvenience	1.090	.248	19.248	1	.000	2.974
	Constant	-4.649	.811	32.845	1	.000	.010

a. Variable(s) entered on step 1: servencountfail, coreservicefail, pricing, Inconvenience.

FINDINGS
The results of the logistic regression analysis show that among the four factors, core service failure and inconvenience are significant at 0.05 level and therefore have a positive effect on customer switching behaviour while service encounter failure and pricing are not significant. Hence research hypotheses two and four are supported and research hypotheses one and three are not supported.

CONCLUSION
It is important to understand the influence of various factors on customer switching, if banks have to remain profitable by retaining customers. This study has focused on the influence of service encounter failure, core service failure, pricing and inconvenience on customer switching in retail banking. The results of the study show that core service failure and inconvenience influence customer switching while service encounter failure and pricing do not have a significant impact. Banks should be able to focus on developing strategies that help prevent the occurrence of mistakes or other technical problems which lead to core service failures and also focus on providing more convenience to customers to carry out their banking transactions.

In the case of service encounter failure, a major part of banking transactions today is enabled by technology and as a result of this service encounters between the bank staff and customers is not much. This could be the reason why service encounter failure does not have a significant effect on switching behaviour. With regard to pricing, the interest rates and other charges are until recently, to a large extent, regulated by the Reserve Bank of India. Hence between banks, there is not much variation one may find in these rates and so it can be inferred that pricing does not have a significant effect on switching behaviour.

SCOPE FOR FURTHER RESEARCH
Previous research on switching behaviour shows that most often switching happens due to multiple incidents that are encountered over a period of time. These problems are not evaluated in isolation by customers but there may be interactions between these causal antecedents as the customer moves along the switching path. A study can be designed to study the interaction effects between the causal factors. The study has looked at the effect of four factors, namely, service encounter failure, core service failure, pricing and convenience on switching behaviour in the retail banking industry. Studies to identify the effect of other factors which affect switching behaviour can also designed.

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