PERCEIVED SWITCHING BEHAVIOURAL DETERMINANTS OF CREDIT CUSTOMERS OF PUBLIC BANK AT WOLAITA ZONE IN ETHIOPIA

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ABSTRACT:

The banking environment of today is rapidly changing and the rules of yesterday no longer are applicable today. The corporate and the legal barriers that separate the various banking and investment sectors are less well defined and the cross-over are increasing. In this competitive financial environment of the banking sector, the banks not only competes with each other but also with non-banks and other financial institutions. Banking sector reforms and emerging of foreign and domestic private banks with vast range of new banking products have changed the banking perspective. This diversity could make a positive or negative impact on banks customers to remain loyal to a particular bank or to switch to another bank whichever is more beneficial. The basic objective of this study was to investigate the factors which the credit customers consider while switching to other banks. The researcher identified the factors that have to be given high emphasis by management of the bank in Wolaita Zone while designing the strategies in credit areas like Price, Banks credibility, Quality of services, Bank Proximity, Promotional Activities, Customer Satisfaction and Cost of Switching. The data was gathered through structured questionnaire from credit customers. A causal cross sectional survey was conducted among all the credit customers of bank in Wolaita Zone. A sample of 186 customers were selected by using systematic random sampling technique. Descriptive and Inferential statistics were used for analysis of the data using SPSS version 22 and under Inferential statistics, multiple regression analysis was used to identify the determinants of perceived switching behaviour of credit customers. The results showed that Cost of Switching has the highest impact on credit customer perceived switching behaviour, followed by Price, Promotional activities and customer satisfaction. It was recommended that the banks' employees of the branches should be considerate towards their customers in releasing and recovery of loans, be polite and responsive to the customers' requirements and give personalized attention, by putting customer's best interest at heart, understanding specific needs of customers.

Keywords: Switching behaviour, Loan customers, Price, Reputation, Service quality, Location, Promotion, Customer satisfaction, Switching cost

BACKGROUND OF THE STUDY

A bank is a financial institution and a financial intermediary that accepts deposits and grants loans to customers. The accepted deposits are channeled into lending activities, either directly or through capital market. A bank connects customers with capital deficits to customers with capital surpluses. Banks play a vital role in developing the different economic sectors, through them the stream of money are managed and controlled, investment opportunities are utilized and channels of funds can target productive and profitable projects. (Ismail 2004).

The banking environment of today is rapidly changing and the rules of yesterday no longer are applicable today. The corporate and the legal barriers that separate the various banking, investment and insurance sectors are less well defined and the cross-over are increasing (Titko and Lace, 2010). As a consequence the marketing function is also changing to better support the bank in this dynamic market environment. Currently, financial institutions of all types are moving into a more competitive financial atmosphere with a wide variety of financial products and services. In response to this volatile market environment, commercial banks have shown a keen interest in marketing their products and services to their customers more effectively. Doing efficient product and service delivery effort, therefore, Banks can increase their customers base and attract new customers and mainly by retaining the existing customers for long.

A commercial bank achieves its basic goals through offering banking products and services to its clients. Consequently, bank clients have important status: they are buying the bank's products and thereby creating appropriate profits for the bank and support its competitive ability. Bank customers' satisfaction is currently at the center of attention of researchers and bankers, as it represents an important marketing variable for most companies, especially those working in more competitive markets.

Customers who remain loyal and stay with a particular bank are often worth the marketing effort, owing to their willingness to buy additional products and spread positive word of mouth as well as their reliability as a source of continuous revenues (Zeithaml, Berry, & Parasuraman 1996). The programs of customer retention could lead to a higher rate in buyer loyalty. Although that marketing manager's primary concern is maintaining and increasing brand.

STATEMENT OF THE PROBLEM :

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 their banking behaviour 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 behaviour.

Despite a growing awareness of the factors that may influence customers' to switch banks among academic and practitioners, there are still research gaps in the literature. It is very vital to collect information from the loan customers on factors that make them remain loyal and satisfied with a specific bank and all those factors which cause burden- some when comparing with the services provided by other banks compared with the credit department of the bank in Wolaita Zone. Therefore, this study will attempt to address the determinants of perceived customers switching behaviour through incorporating more and different variables from various empirical researches and analysis and also using recent and extensive evidence collected from the bank, Wolaita Zone credit department and also from the credit customers on the determinants of perceived customers switching behaviour.

RESEARCH OBJECTIVE

The objective of the study is to examine the significant determinants of the credit customer perceived switching behaviour of the bank in Wolaita Zone.

SIGNIFICANCE OF THE STUDY

Making studies in the area of customers' perceived switching behaviour is important to understand the determinants of credit customers. Ascertaining such determinants of the preference of customer helps bank executives to identify and define the appropriate marketing strategies needed to attract new customers and retain the existing ones. It is important to understand the customers' bank switching behaviour criteria and to work on how to satisfy the needs of the clients as much as possible and to remain competitive in the banking industry.

SCOPE OF THE STUDY

The study is confined only to the credit customers of the Bank existing in Wolaita Zone. It will be good enough if the research is conducted on customers of different regions as different demographic characteristics of customers differ in different geographical areas. This might change the results of this research study. However, the researcher is interested to study on credit customers of the Bank, Wolaita Zone.

REVIEW OF LITERATURE

When a consumer switches from one bank to another bank, it is usually caused by single or multiple events. The factors which are important to understand the bank switching are inconvenience, services failures, pricing, unacceptable behaviour, attitude or knowledge of staff, involuntary mentioned incidents and attraction by competitors (Gerrard & Cunningham, 2004).

Customers are more concerned with the benefits a product can offer hence service features is found to be a major determinant of customer switching behaviour in the retail banks. The product considerations include the actual product or service as well as the brand name, reputation, and packaging. Products based on goods tend to have more tangible characteristics, and products based on services tend to be more intangible. Service products normally include a core service, which associates with specific features, service specifications, and targets (Berry, 2004).

A case study done by Suleiman (2010) to assess bank customer switching behaviour and loyalty in Iran on state-owned banks in Tehran, sought to investigate factors that would influence customers' decision to stay with or leave their current banks. The most important construct (by mean score) was customer features, followed by corporate image and changing barriers. These results led to suggestions for bank managers to consider how they might improve customer retention in today's competitive banking environment. Results of this analysis have also showed that there was significant correlation between service features such as interest on loans, commission charges and interest on savings and customer loyalty.

Clemes et al., (2010) found that the segment of young customers in banks are very fast to switch bank even if they feel very minor ambiguity comes in their mind. This segment always try to focus on the price, convenience and reputation before switching to another bank .It has become much important for the banks personnel to build long lasting relationship with their customers so that their loyalty can be ensured and the level of switching can be reduced as well (Oliver, 2004).

A study carried out by Colgate & Hedge (2001) on bank customers' switching behaviour in Australia and New Zealand established price as the top switching determinant, followed by service failures and denial of services. Service products are an important component of service quality in intangibly based services as identified in several studies focusing on the hierarchical nature of service quality. Service products can be components of interaction quality, physical environment quality, and outcome quality in a hierarchical context, for example, access and service portfolio are a component of service quality in retail banking.

Clemes (2010) established that price, reputation, service quality, effective advertising, involuntary switching, distance, and switching costs impact customers' bank switching behaviour. 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 labelled as inconvenience, services failures, pricing, unacceptable behaviour, attitude or knowledge of staff, involuntary mentioned incidents and attraction by competitors (Gerrard & Cunningham, 2004). The authors documented that over two-thirds of respondents were influenced to switch bank by more than one event. 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.

A research was conducted which investigated the customers switching behaviour in the banking industry and found that customers demand quite different from banks due to various reasons such as price of service, inconvenient location of the banks etc (Gerrard & Cunningham 2004). Another research was conducted which found in its study that there are many ways of switching events that lead how customers are behaved when customers complaint against different bank services such as facilities, disclosure of information, confidentiality and services challenges. They also concluded that there are six different variables that are important to attain the understanding of customers switching behaviour in banks such as inconvenient location of the bank's branches, service failures, high pricing, and behaviour of banks personnel, reflex issues, and better facilities by competitors.

A researcher concluded that it is important for financial institutions to consider customers different behaviours regarding their investments then bank lose their revenues from that customer. Heavy costs comprise of account opening cost and many other costs are also linked with the acquisition of new customers and these costs can be as superior as the costs of customer maintenance efforts Keaveney (1995). On the basis of past data and general perceptions about banking and its customer's relationship studies we developed the relationship of variables; Bank branches, religious belief, advertisement, service quality, profit & interest rate with the switching behaviour of in the banking sector of Pakistan.

The behaviour of customers' switching is a prevailing global phenomenon spread among banking customers who tend to move from one bank to another in searching of more appealing and attractive services. (Al Ghammari KA, Ahmed EM, 2017) Such behaviour is caused by dissatisfaction with their primary banks.

VARIABLE IDENTIFICATION

Bank switching behavioural factors namely Price, Banks credibility, Quality of services, Bank Proximity, Promotional Activities, Customer Satisfaction and Cost of Switching are taken as independent variables and credit customer perceived switching behaviour is the dependent variable.

Price

Price in banking industry refers to fee implementation, bank charges, interest on loans, interest for saving account and deposits. Price is consideration of what one pays for the benefit or service he gets from another. Price may include the benefit also. Banking customers generally demonstrate increased sensitivity to high fees or rates on deposits and it is the primary reason that most switch their banks.

H_1: Price of the bank services significantly affects credit customer perceived switching behaviour.

Banks Credibility

Banks credibility or Reputation is the social symbols and/or brand, which 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

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the bank. On the other hand, a negative reputation increases the possibility of customers' switching banks. According to Clemes et al.(2007), reputation depended on three elements, namely the reliability of banks, trust worthiness of the bank, and the financial stability of the bank.

H_2: Banks credibility of the bank significantly affects credit customer perceived switching behaviour.

Quality of Services

Quality of services is denoted by politeness, courtesy and competence of staff while dealing with customers. It is the ability of the staff and manager to convey trust and confidence, efficiency and effectiveness of the service, and the ability to solve the customer's problems. Service is largely intangible and is normally experienced simultaneously with the occurrence of production and consumption, and it is the interaction between the buyer and the seller that renders the service to customers (Gronroos, 1988).

H_3: Quality of services of the bank significantly affects credit customer perceived switching behaviour.

Bank Proximity

Bank proximity is the convenient location of the bank situated and it is one of the important factors that influence the bank selection decision. 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.

H_4: Bank proximity of the bank significantly affects credit customer perceived switching behaviour.

Promotional Activities

Promotional Activities are an important criteria to all the banks in this highly competitive market. Promotion is a means of communicating the customers about the products or services and letting the consumers know the existence of it. Effective advertising can broaden the communication channel between customers and institutions which enhances the chance of success. Advertising is actually defined as the promotion of products or services of a brand or company for the purpose of awaking the consumers about the existence of a new product in their surroundings.

H_5: Promotional Activities of the bank significantly affects credit customer perceived switching behaviour.

Customer Satisfaction

Customer satisfaction refers to a person's satisfaction with a product, a service, or a supplier (Terpstra et al., 2014). The authors also state that customer satisfaction in banks refers to the balanced state of mind, concerning the bank, and evoked by the customer's experiences with the bank throughout time.

H_6: Customer satisfaction from the bank significantly affects credit customer perceived switching behaviour.

Costs of Switching

Costs of Switching are the costs that a consumer incurs as a result of changing banks, brands, suppliers or products. Switching costs are costs that are incurred by buyers for terminating transaction relationships and initiating a new relation. The existence of switching cost does have impact on market operation, monopolistic profits and entry barriers. The influence of switching cost on customer behaviour as customers are bonded with their service provider and it is hard for them to change to a new provider.

H_7: Costs of Switching of the bank service significantly affects credit customer perceived switching behaviour.

CONCEPTUAL FRAMEWORK

Based on review of literature conceptual framework for this study was designed.

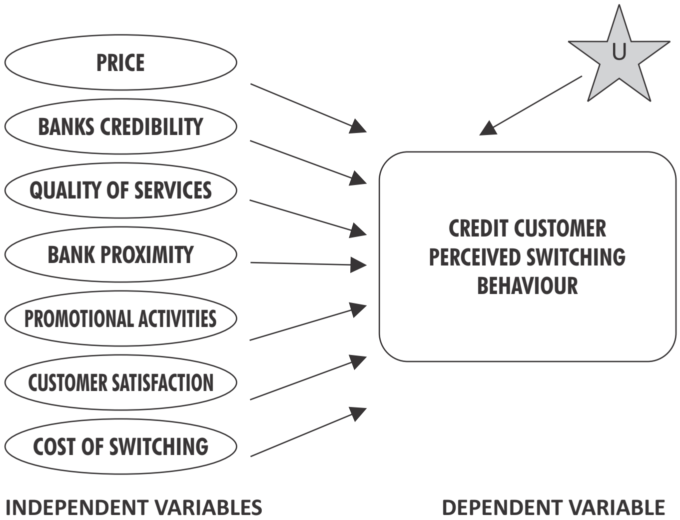

Fig 1: Conceptual framework of the study

THE MATHEMATICAL MODEL

The mathematical model can be written as : $Y = a + \beta x$

Where, y = dependent variable; a = intercept; β = slope (coefficient) of independent variable x

$CCSB = a + \beta1\ PR + \beta2\ BC + \beta3\ QS + \beta4\ BP + \beta5\ PA + \beta6\ CS + \beta7\ COS + U$

Where,

CCSB = Credit customer perceived switching behaviour ;

a = constant ;

$\beta1 - \beta7$ = regression coefficients of independent variables;

PR = Price ;

BC = Banks Credibility ;

QS = Quality of Services;

BP = Bank Proximity ;

PA = Promotional Activities ;

CS = customer satisfaction ;

COS = Cost of Switching ;

U = It is the stochastic Disturbance term/ a random and unobserved that may represent all those challenging factors.

RESEARCH METHODOLOGY

The study has been conducted on the basis of the primary data collected through structured questionnaire. As the approach aims at analysing the credit customers perceived switching behavioural determinants, the research design has been taken to be causal. The study was undertaken between Jan 2018 – May 2018. The study is being carried out at Wolaita Zone. The data was collected from 186 credit customers who have availed the credit from Bank, for business purpose by using Yemane formula method of sample determination at 95% confidence level. A survey questionnaire was prepared using five point Likert scale (1= strongly disagree, 5= strongly agree) to measure the response on continuous scale. Descriptive and inferential statistics were used as data analysis tool. Reliability of the instrument was checked through Pilot study. The calculated reliability Cronbach's alpha was 0.819 which shows that questionnaire is highly reliable.

DATA ANALYSIS AND INTERPRETATION

Table 1 is the result of this multiple regression analysis taking into consideration Credit customer perceived switching behaviour of Bank at Wolaita Zone and factors viz., Price, Banks credibility, Quality of services, Bank Proximity, Promotional Activities, Customer Satisfaction and Cost of Switching as seven independent variables.

In the SPSS output table 1, R shows the value of the multiple correlation coefficients between the dependent and the independent variables(R = .662) which represents strong correlation. Next column shows the coefficient of determination or correlation coefficient (R2) which is the proportion of variation in the dependent variable that is explained by the seven independent variables. So 43.8% of the variation in Credit customer perceived switching behaviour of the Bank at Wolaita Zone can be explained by seven independent factors in the model. Thus it can be concluded that the above mentioned Credit customer perceived switching behaviour factors share 43.8% of the influence on the dependent variable in Wolaita Zone. This means that 56.2% of the influencing factors of Credit customer perceived switching behaviour cannot be explained by this study variables which may require further investigations in other researches.

Adjusted Coefficient of determination or correlation coefficient squared is found to be 0.416. This value indicates the loss of predictive power or shrinkage and tells us how much variance in the dependent variable would be accounted for if the model had been derived from the population. The adjusted R2 gives some idea about how well our model generalizes and ideally its value becomes the same or very close to the value of R2. The difference for the model is small (0.438 – 0.416 = 0.022) which is 2.2%. This shrinkage means that if the model were derived from the population rather than a sample, it would account for approximately 2.2% less variance in the outcome. Therefore, the researcher concludes that this regression model has resulted in a significant prediction of the influencing factors of the credit customer perceived switching behaviour of the bank at Wolaita Zone.

Durbin Watson which is done for checking independence of errors tests serial correlation between errors. Durbin-Watson used to detect the presence of autocorrelation in residuals. The value of Durbin-Watson always lies between 0 and 4. If the Durbin–Watson statistic is substantially less than 2, there is evidence of positive serial correlation. As a rough rule of thumb, if Durbin–Watson is less than 1.0, there may be cause for alarm. The value in our analysis is 2.018 which is under the acceptable limit (1-3).

ANOVA Table 2 shows whether the proportion of variance explained in the model summary is significant. It also tells whether the overall effect of the seven independent variables on Credit customer perceived switching behaviour is significant. It shows the value of F statistics 19.858 at 7 and 178 degrees of freedom is statistically significant at 95% confidence which means that model is statistically significant. This significance also shows that that the model is significant better at predicting the outcome and is very unlikely to happen by chance and the model significantly improves the ability to predict the outcome variable.

From table 3 after analysing t value we can see that Cost of Switching has the highest impact on Credit customer perceived switching behaviour ($t = 6.515$), followed by Price ($t = 3.466$) , followed by Promotional Activities ($t = 3.232$), followed by Customer satisfaction ($t = -3.537$). The output of multi-collinearity test which shows that there is no multi-collinearity among independent variables as all VIF values are below 2.5 and Tolerance values are near .5.

CONCLUSION

Based on the findings it can be concluded that Price, Promotional Activities, Customer satisfaction and Cost of Switching variables significantly affects switching behaviour of credit customers at 5% level of significance while Bank Credibility, Quality of services and Bank Proximity do not have significant effect on perceived switching behaviour of credit customers.

Out of four significantly effecting factor Cost of switching (formalities of other banks) is the most important factor followed by Price (loan interest rate and other bank charges), Promotional Activities (advertisement of the bank) followed by Customer satisfaction (satisfaction, personalized attention to the customer).

From table 4, out of the seven hypothesis tested four are accepted and three of them are rejected. H1, H5, H6, H7 related to Price, Promotion, Customer satisfaction and Switching cost are accepted and H2, H3, H4 related to reputation, service quality, and location are rejected.

The results of this research will contribute to all banks, as they face severe problem of customer attrition. The banks' branches should also review their loan procedures in the interest of the customers from time to time by taking feedback from them so that they can get competitive advantage over other banks' branches as well as other banks.

RECOMMENDATIONS

On the basis of the results of this research, it can be recommended that The bank employees of the branches should be considerate towards their customers in releasing and recovery of loans, be polite and responsive to the customers' requirements and give personalized attention, by putting customer's best interest at heart, understanding specific needs of customers.

Price is also found very significant contributors of loyalty so the top management must look into the factors and take decision related to the interest charged on loans, bank charges, service charges, and give fair estimation for loan collaterals taking into consideration feasibility of the service and the bank's profitability. Pricing is critical to customer satisfaction, but most customers have no idea how much they pay each year. Transparency over pricing and service promises is vital if banks are to deliver something customers value.

The banking products must be advertised through mass media advertisement and sales promotional activities. The banks should also participate in socio-economic activities and also should sponsor local events to develop and promote its brand and banking products. Promotional attractions such as free gifts or lucky draw may help reduce the switching behaviour of the customers.

The amount of loan bank sanctions should be enough to run the business. The banks should focus on providing short term, medium and long term loans as per the needs and requirements of the customers. The Bank's policies and practiced activities should be made known to the customers so that customers can develop trust and respect toward the banks.

Banks should focus on operational improvements on customers' most valued interactions, optimizing the resulting impact on attrition, dormancy and loyalty. Banks needs to improve the way they provide information and advice to the interest of the customers and convince self-directed customers, including financial planning tools, ranges of product and pricing bundles.

SCOPE FOR FUTURE RESEARCH

The study is limited to only the public bank, Wolaita Zone, credit customers only. However it would have been more helpful if it includes credit customers of other districts and other banks. This research however has more rooms for further research. Further research could be conducted to private bank in same area as well as other regions of Ethiopia to generalize the findings. Other factors which have not been included in the current study like Financial Advantage, Credit service provision, Convenient, Accessibility, Technology aided service and Marketing are influential for credit customer to choose their Bank, being loyal and not switching to other banks.

Further the researchers have to find other factors besides covered in this research and conduct the research as these unidentified factors also constitute large grey area. The researcher also proposes further researches to be made by considering the previous credit customers of the bank currently switched to other banks in order to learn from lost Customers.

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Table 1: Regression Model

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.662[a]	0.438	0.416	0.69054	2.018
a. Dependent Variable: perceived switching behaviour				
a. Predictors: (Constant), cost of switching, bank credibility, price, bank proximity, customer satisfaction, quality of services, promotional activities				

Source: *Researchers data analysis, 2018*

Table 2: Anova of variables

	Sum of Squares	df	Mean Square	F	Sig.
Regression	66.283	7	9.46	19.858	.000[b]
Residual	84.878	178	90.477		
Total	151.161	185			
a. Dependent Variable: perceived switching behaviour					
a. Predictors: (Constant), cost of switching, bank credibility, price, bank proximity, customer satisfaction, quality of services, promotional activities					

Source: *Researchers data analysis, 2018*

Table 3: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std.Error	Beta		
(Constant)	1.054	0.335		3.147	0.002
Price	0.231	0.067	0.221	3.466	0.001
Bank credibility	-0.129	0.064	-0.121	-2.008	0.056
Quality of services	-0.1	0.093	-0.091	-1.077	0.283
Bank proximity	0.092	0.11	0.071	0.837	0.404
Promotional activities	0.316	0.098	0.292	3.232	0.001
Customer satisfaction	-0.309	0.087	-0.298	-3.537	0.001
Cost of switching	0.621	0.095	0.514	6.515	0.000
a. Dependent Variable: perceived switching behaviour					

Source: *Researchers data analysis, 2018*

Table 4: Test of Hypothesis

	Hypothesis statement	p-value	Significance	Result
H1	Price of the bank services significantly affects credit customer perceived switching behaviour.	.001	Significant	Accepted
H2	Banks credibility of the bank significantly affects credit customer perceived switching behaviour.	.056	Insignificant	Rejected
H3	Quality of services of the bank significantly affects credit customer perceived switching behaviour.	.283	Insignificant	Rejected
H4	Bank proximity of the bank significantly affects credit customer perceived switching behaviour.	.404	Insignificant	Rejected
H5	Promotional Activities of the bank significantly affects credit customer perceived switching behaviour.	.001	Significant	Accepted
H6	Customer satisfaction from the bank significantly affects credit customer perceived switching behaviour.	.001	Significant	Accepted
H7	Cost of Switching the bank service significantly affects credit customer perceived switching behaviour.	.000	Significant	Accepted