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Loan Customers Loyalty Switching Behavioural Determinants in Ethiopian Banks

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Abstract
In this competitive global banking markets, customer switching is injurious to every bank. 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' loyalty and switching. This study investigates the seven factors namely Price, Reputation, Service Quality, Location, Promotion, Customer satisfaction and Switching cost which the loan customers may consider while switching to other banks. The study was undertaken between Jan 2017 – May 2017.A causal cross sectional survey was conducted among 450 purposively selected loan customers (who have taken loan more than 100000) of seven banks of Ethiopia in Addis Ababa. Factor analysis and multiple regression analysis were used to identify the predictors of switching behavioural determinants among customers. Based on the findings it can be concluded that Price, Service quality, Location, Customer satisfaction and switching cost variables significantly affects switching behavior of loan customers while Reputation and Promotion by the bank do not have significant effect on switching behavior of customers. Out of five significantly effecting factor Location (accessibility of the bank) is the most important factor followed by Price (loan interest rate) followed by service quality (consideration, personalized attention to the customer).
Keywords: Loyalty switching behavior, Loan customers, Price, Reputation, Service quality, Location, Promotion, Customer satisfaction, Switching cost

INTRODUCTION

The financial services and resources provided by the banking sector, which operates within the whole society as the most important operational tools. This financial sector is the key and crucial foundation for both the companies and households by supplying the provisions of society's infrastructure and contributing to the economic growth of the country.(Konkurrensvert, 2009). Traditionally, due to government regulations, the high cost of entry, and the physical distribution networks, banks have dominated the financial service sector for many years (Reber, 1999). During the 1980's, the international banking sector coped with the international level of de-regulation. Global de-regulation of the banking industry that began in the early 1980s has contributed to increased customer switching.

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 (Hull, 2002), The banks product and services are easy to duplicate as most of the banks provide identical services. On the basis of price and quality provided by each bank they can distinguish themselves from others. There is new competition from non-bank institutions which have entered the market as cross-border restrictions have been lifted. During the last few years with the advancement of new technologies, like the Internet, has added to more competition. This has led the banks to compete with the new types of products created through the Internet (Gonzalez and Guerrero, 2004). The consumers are now more price and service conscious for their buying behavior towards the financial services buying behavior (Beckett, et. Al 2000). The de-regulation of the banks by the government and the emergence of new technology have added to the highly competitive money market conditions.

The banking environment in Ethiopia has been changing over the past two decades. The banking sector has started changing the structural, regulatory and technological factors which led to an intense competition in the financial institutions. The intense competition that are developing in the banking industry at present pose a big challenge to the profitability of the financial institutions of all size. Ethiopia adopts market oriented economic policy. This led to financial services marketing in Ethiopia to become much more complex. The banking sector of Ethiopia started to offer broadened range of services to cater to the needs of sophisticated and demanding customers. Thus the customers' needs and their bank selection criteria has become very important for all the banks in Ethiopia to ensure maintaining sufficient customer and quality services, and to identify the appropriate marketing strategies needed to retain the existing ones and to attract new customers.

STATEMENT OF THE PROBLEM

During the past decade, the financial service sector has undergone drastic changes, resulting in a market place which is characterized by intense competition, little growth in primary demand and increased de-regulation. Privatization of quite a number of banks further increased the competition and complexity among the banks. Finding a place in this heating environment becomes vital to the long-range profitability and ultimate survival of the bank. This can be done both by maintenance of existing customers and attracting new customers as well. This research is designed to explore the significant determinants of the customer switching behaviour of loan customers in banking industry of Ethiopia in order to help this key industry to have a wider look for supporting their customers on significant indicators and finally having more loyal ones.

RESEARCH OBJECTIVES

The objective of the study is to investigate the significant determinants of the loan customer switching behaviour in banking industry of Ethiopia.

SIGNIFICANCE & SCOPE OF THE STUDY

Making studies in the area of customers' behaviour is important to understand the preference and bank choice of customers. Ascertaining such determinants of the preference and bank selection criteria 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 criteria and to work on how to satisfy the needs of clients as much as possible and to remain competitive in the banking industry. The study provides bank executives with insights into the switching behaviour of customers and to find the most appropriate banking needs. Banks must determine all these issues especially when they implement their marketing strategies. The study is confined only to the loan customers of the Banks in Ethiopia.

LITERATURE REVIEW

Customer retention or prohibition of customer switching is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment. Customer switching and loyalty generally are two opposite split ends for future profit realization for any company. Customer switching is a challenge for existing banks. Customer switching ends with losing existing customer affecting the future progress of business. It means customers stop purchasing particular services or patronizing the service firm completely whereas customer loyalty helps to sustain the business position. A stable relationship with an organization is established by loyal customers as compared to non-loyal customers (Zeithaml, et. al, 1996). Loyalty is directly related to customer switching and inversely related to operating cost. (Bolton and Bronkhurst, 1994).

Banks are also the part of business in any environment. Many literatures on customer relationship advocate that longer-term relationships with customers must be establishment and developed (Stewart, 1998). Anderson et al., (1994) affirmed that customer satisfaction compels future profitability. It is a vital measure of performance for firms, industries, and national economies. Heavy use of satisfaction surveys by service industries is driven by the assumption that a satisfied customer will return for a repurchase (Jones et al. 2000).

Rust and Zahorik (1993) answered the question: does satisfaction always imply customer loyalty? A satisfied customer continues his/her patronage if he/she anticipates no services better from alternative suppliers. Secondly, satisfied customer will be willing or even eager to patronize alternative suppliers hoping to receive even more satisfying results.

Consumer switching behavior is basically the behavior of consumers in shifting their attitude from one brand (bank / branches) to another brand (bank / branches) (Zikiene & Bakanauskas, 2006). Clemes (2010) established that price, reputation, service quality, effective advertising, involuntary switching, distance, and switching costs impact customers' banking switching behaviour. The findings also reveal that the young and high-income groups are more likely to switch banks.

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).

The argument for customer retention is more economical to keep the existing customers rather than to acquire new ones. The costs of acquiring customers to replace those who have been lost is very high (Reichheld & Kenny,1990). The expenses incurred for acquiring new customer is in the beginning stages of the commercial relationship. According to Abratt & Russell (1999) the crucial factors influencing customers' retention for a bank includes the range of services, rates, fees and prices charged. It is not sufficient to satisfy customers with superior service, alone. Most private banks claim that are creating and maintaining customer relationships are important to them and they are aware of the positive values that relationships provide (Colgate, Stewart, & Kinsella, 1996).

Athanassopoulos (2000) states that customers switching leads to opportunity costs because of the decrease in sales, but it also leads to an increased need for attracting new customers which is five to six times more expensive than customer retention. Nguyen & Le Balnc (1998) on his part also affirmed the effects of customer satisfaction, service quality, and value on perceptions of corporate image and customer loyalty towards the service firm. Their findings showed that customer satisfaction and service quality are positively related to value and that quality exerts a stronger influence on value than satisfaction.

Perner (2006) stated that the consumer switching behavior is a complex study of factors. The behavior of consumers towards switching is stimulated to their purchase between brands. The consumer behavior is, "the psychology of how consumers think, feel, reason and select between different alternatives like brands, products and retailers". Due to competitive business environment, it has become difficult for the bankers to build mutual relationships with their customers through delivering better value and fulfilling their commitments. The consumer switching behavior is in between the companies and customers, because the consumer switching behavior restricts both parties to make long-term relationships and even it breaks the pre-developed long term relationships (Zikiene & Bakanauskas, 2006).

Almossawi (2001) study found that the customers comparison between two banks and which induces them to switch over from one bank to another bank is influenced by the price element in the banking industry. Bank reputation, distance and parking space were identified as other important factors. Abdullah (2007) indicated that reputation and quality of services provided by the banks were also some of the factors that affected customer's switching behaviour in Malaysian Islamic banking sector.

Safakli (2007) identified service quality, convenient location and advertisement to be the most important factors that influences the bank selection decision of the customers. More customers were attracted when the banks announced various offers for promoting the business. Attractions such as free gifts or lucky draw will also help reduce the switching behaviour (Gerrard& Cunningham, 2004). The presence of switching cost has an impact on market operation, monopolistic profits and entry barriers.

Kibrom Aregawi (2010) researched on Customer Satisfaction and Service Loyalty in Wegagen Bank, Mekelle Branch and found that there was significant positive relationship in between service quality and customer satisfaction. Both service quality and corporate image were found to have positive and significant association with service loyalty. Price was positively related and has significant impact both on customer satisfaction and service loyalty.

Deksios Bezabih (2015) conducted the research on determinants of loyalty of credit customers of Commercial Bank of Ethiopia found that customer's satisfaction, brand image and quality services are significantly and positively affecting customer's loyalty.

Chacha Magasi (2016) research on the determinants of customer loyalty in Sub-saharan African banking industry inferred that perceived quality, customer satisfaction, and trust are the major determinants of Customer Loyalty in Sub-Saharan African Banking Industry.

Mesay Sata Shanka (2012) research on Bank Service Quality, Customer Satisfaction and Loyalty in Ethiopian Banking Sector indicate that offering high quality service increase customer satisfaction, which in turn leads to high level of customer commitment and loyalty .

Shiferaw Bekele (2011) researched on impact of relationship marketing on customer loyalty in Bank of Abyssinia, concluded that relationship marketing have significantly affect on customer loyalty with the recommendation that banks should make the whole system on work with customers, not in opposite of customers.

Elkana Cheruiyot (2013) conducted the research on factors influencing customer loyalty in the case of commercial banks in Mombasa Kenya and concluded that quality of service plays a crucial role in influencing customer loyalty hence the need for all bank employees to practice courtesy all the time. Clearly, there are compelling arguments for bank management to carefully consider the factors that might increase customer retention rates. The aim of the study was, therefore to determine the factors which influence customer switching behavior.

CONCEPTUAL FRAMEWORK

Based on review of literature conceptual framework for this study was designed. Bank switching behavioural factors namely Price, Reputation, Service quality, Location, Promotion, Satisfaction and switching cost are taken as independent variables and Loan customer loyalty.

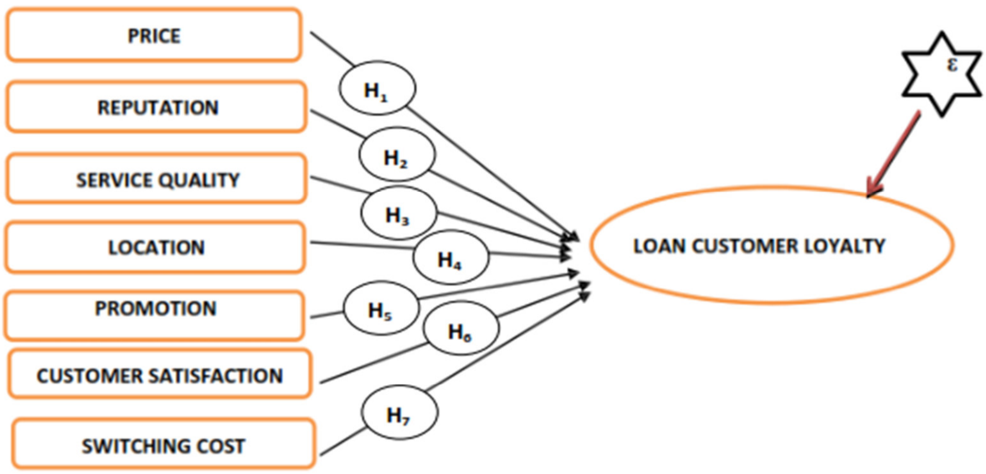

Fig 1: Conceptual framework of the study

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)

Reputation

Reputation is an amalgamation of all expectations, perceptions and opinions of an organization developed over a period of time by all the stakeholders in relation to the organization's qualities, characteristics and behaviour, based on personal experience, hearsay or organization's past actions (Bennett and Kottasz, 2000). 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.

Service Quality

Quality of service 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.

Location

Location is to select the nearest branch of a bank from the customers residential place or work place according to the convenience (Kisser, 2002).

Promotion

Promotion is important 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.

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). Moutinho and Smith (2000) , in their study of customer satisfaction with human and automated banking, revealed that bank customer attitudes towards the human provision of services and subsequent level of satisfaction will effect bank switching more when the same service delivery is made through the automation.

Switching Cost

Switching costs 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. Porter (1980) defined Switching cost as a onetime cost facing a buyer wishing to switch from one service provider to another. Jackson (1985), however, defined switching cost as the psychological, physical and economic costs a customer faces in changing a supplier.

The mathematical model can be written as :

$Y = a + \beta x$

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

$CLSB = a + \beta_1 PR + \beta_2 RE + \beta_3 SQ + \beta_4 LO + \beta_5 PRO + \beta_6 CS + \beta_7 SC + U$

Where, CLSB =Customer loyalty switching behavior; a = constant; $\beta_1 - \beta_7$ = regression coefficients of independent variables; PR = Price; RE = Reputation; SQ = Service quality; LO = Location; PRO = Promotion; CS = customer satisfaction ; SC = switching cost; U = Stochastic Disturbance

Research Hypothesis

H_1: Price of the bank service significantly affects loan customer loyalty switching behaviour.

H_2: Reputation of the bank significantly affects loan customer loyalty switching behaviour.

H_3: Service quality of the bank significantly affects loan customer loyalty switching behaviour.
H_4: Location quality of the bank significantly affects loan customer loyalty switching behaviour.
H_5: Promotion of the bank significantly affects loan customer loyalty switching behaviour.
H_6: Customer satisfaction from the bank significantly affects loan customer loyalty switching behaviour.
H_7: Switching cost of the bank service significantly affects loan customer loyalty switching behaviour.

Research Methodology

The target population of this study is all the customers of 7 banks' (one nationalized and six private) branches functioning in Ethiopia (Addis Ababa). Sample frame constitutes 450 (minimum 50 from each bank) loan customers judgmentally selected who have taken loan of 100000 Birr or more from the banks. The study was undertaken between Jan 2017 – May 2017. The research design used is causal research design with the objective of identifying the impact of seven independent variables on customer switching behaviour (dependent variables). Data was collected from the customers of these banks through primary sources using questionnaire as instrument. 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. Pilot study was conducted on14 customers to check the reliability of the questionnaire. Reliability was checked by used using Cronbach alpha to understand how closely the set of items are related as a group or factor which ranged from 0.83 to 0.91 which shows that the questionnaire is highly reliable.

Findings and Analysis

Factor analysis was conducted to check the convergent and divergent validity of the questionnaire. Table shows KMO and Bartlett's Test of spherecity result. As the value of Kaiser-Meyer-Olkin measure of sampling adequacy is above .7, which shows that the data is suitably good to conduct factor analysis. Bartlett's test of Sphericity has significant result which means that we reject the null hypothesis that the variables are uncorrelated.

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.792
Bartlett's Test of Sphericity	Approx. Chi-Square	6057.513
	Df	391
	Sig.	.000

Table 2 is the output of the factor extraction process which determines the linear components within the data set (the eigenvectors) by calculating the eigenvalues of the R-matrix. 23 items of all seven identified independent variables are extracted into seven factors having eigenvalues greater than 1. All seven identified factors explain 63.780% of total variance.

Table 2: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.020	26.172	26.172	6.020	26.172	26.172
2	1.960	8.520	34.692	1.960	8.520	34.692
3	1.562	6.790	41.482	1.562	6.790	41.482
4	1.427	6.205	47.687	1.427	6.205	47.687
5	1.381	6.004	53.690	1.381	6.004	53.690
6	1.258	5.468	59.158	1.258	5.468	59.158
7	1.063	4.621	63.780	1.063	4.621	63.780
8	.998	4.341	68.121			
9	.944	4.105	72.226			
10	.813	3.535	75.761			
11	.718	3.120	78.881			
12	.671	2.919	81.800			
13	.624	2.715	84.515			
14	.549	2.387	86.902			
15	.520	2.263	89.165			
16	.471	2.049	91.214			
17	.441	1.916	93.130			
18	.408	1.772	94.902			
19	.363	1.580	96.482			
20	.311	1.351	97.832			
21	.287	1.249	99.082			
22	.211	.918	100.000			
23	-3.914E-018	-1.702E-017	100.000			

Extraction Method: Principal Component Analysis.

Table 3 shows the rotated component matrix factor loadings of all seven factors. This table contains the rotated factor loadings (factor pattern matrix) for each variable onto each factor which represent both how the variables are weighted for each factor but also the correlation between the variables and the factor. Factor loadings can be interpreted like standardized regression coefficients. We see customer satisfaction (CS1 –CS4) is loaded on 6 factor and CS1 is loaded differently we will skip that item. Price is loaded on 2 factor , Service quality is loaded on 3 factor(SQ1) is deleted, Location is loaded on 4 factor, Switching cost is loaded on 7 factor , Promotion is loaded on 1 factor and Reputation is loaded on 5 factor (RE1 is deleted).So after rotated factor analysis CS1, SQ1 and RE1 items deleted. Now out of 23 items of seven identified variables initially, 20 items of seven variables will be the part of regression model for further analysis.

Table 3: Rotated Component Matrix

	Component						
	1	2	3	4	5	6	7
CS1							
CS2						.946	
CS3				.479		.439	
CS4						.761	
PR1		.432				.582	
PR2		.739					
PR3		.946					
SQ1					.545		
SQ2			.739				
SQ3			.815				
SQ4			.761				
LO1				.611			
LO2				.443			
LO3				.745			
SC1							.687
SC2							.751
SC3							.645
PRO1	.746						
PRO2	.682						
PRO3	.620						
RE1	.695						
RE2					.750		
RE3					.720		

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Rotation converged in 12 iterations.

After factor analysis we run regression analysis to see the significance of seven independent variables effect on loan customer loyalty (dependent variables). Table 4 shows the model summary. It states that seven independent variables shows 56.4% variability in loyalty switching behaviour. Durbin Watson value of 1.793 falls under 1-3 which shows that there is no significant auto correlation among residuals which shows model fit.

Table 4: Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.751	.564	.557	.37876	1.793

Table 5 shows the variance by seven independent variables on Loyalty switching behavior. BE. In both the cases the independent variables significantly affect the dependent variables at 5% level of significance.

Table 5: Analysis of variance in loyalty switching behavior by independent variables

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	82.14	7	11.734	81.794	.000[b]
Residual	63.41	442	0.143		
Total	145.549	449			

a. Dependent Variable: Customer Loyalty Switching Behaviour

b. Predictors: (Constant), Switching Cost, Reputation, Promotion, Service Quality, Location, Price, Customer Satisfaction

Table 6 displays the regression coefficients of seven independent variables that have impact on customer loyalty switching behavior. Table shows that Price, Service quality, Location, Customer satisfaction and switching cost are five independent variables which have significantly affects switching behavior of loan customers at 5% level of significance while two factors Reputation and Promotion do not significantly have effect on switching behavior of customers. Out of five significantly effecting factor location is the most important factor (t = 7.063), followed by Price (t = 6.928) followed by service quality (t = 5.506). Significant constant value shows that if all independent variables become zero, then also the customers show significant loyalty switching behavior . The regression equation can be written as :

CLSB = a + β_1 PR + β_2 RE+ β_3 SQ + β_4 LO + β_5 PRO + β_6 CS + β_7 SC + U

CLSB = 1.034 + 0.293 PR - 0.162 SQ - 0.232 LO - 0 .144CS + .119 SC

Negative β value shows inverse relationship of independent relationship with dependent variable. In this research (table 6) we see that as price of loan (interest) and the cost of switching from one bank to another bank increases, the loyalty switching behavior increases while if service quality increases, location of the bank is accessible and satisfaction of customer increases, loyalty switching behavior decreases.

Table 6: Regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.034	.104		9.919	.000		
Price	.293	.042	.366	6.928	.000	.354	2.826
Reputation	-.039	.032	- .061	-1.785	.056	.759	1.317
Service Quality	-.162	.029	-.209	-5.506	.000	.681	1.468
Location	-.232	.033	-.290	-7.063	.000	.584	1.713
Promotion	.049	.025	.068	1.956	.055	.811	1.233
Customer Satisfaction	-.144	.047	-.163	-3.074	.002	.351	2.848
Switching Cost	.119	.028	.151	4.169	.000	.750	1.334

The last column in table 6 checks the multi-collinearity among the independent variables. As the values of Tolerance and VIF are above .1 and under 5 respectively (rule of thumb) we can infer that the variables do not show multi-collinearity.

Fig 2 and 3 relates to checking the normality of residuals for model fit. Fig 2 displays the histogram of distribution of residuals which shows that residuals are almost normally distributed (distribution is bell shaped). Fig 3 displays the Normal P-P Plot of Regression Standardized Residuals. In the fig 3 we see that the residuals are congregated on the normal line. Fig 2,3,4,5 verifies the normality of data and model fit.

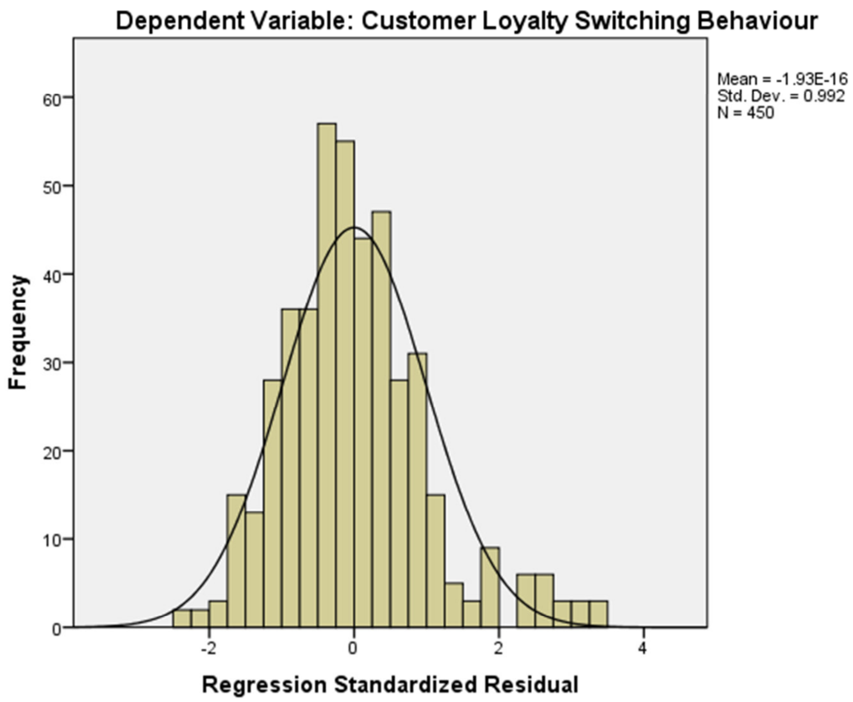

Fig 2: Histogram of residuals

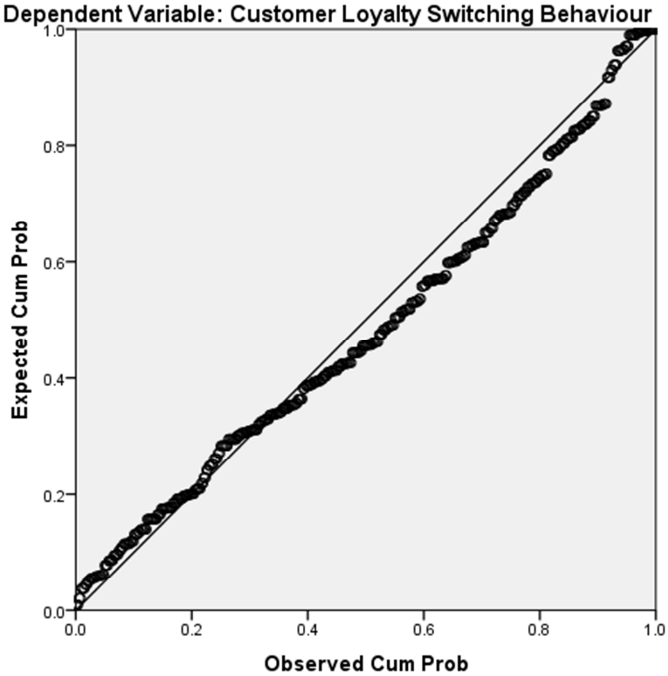

Fig 3: Normal P-P Plot of Regression Standardized Residual

Hypothesis Testing

H_1: Price of the bank service significantly affects loan customer loyalty switching behaviour. The hypothesis is accepted as p value is .000 which is less than .05 at 5% level of significance.

H_2: Reputation of the bank significantly affects loan customer loyalty switching behaviour. The hypothesis is rejected as p value is .056 which is greater than .05 at 5% level of significance.

H_3: Service quality of the bank significantly affects loan customer loyalty switching behaviour. The hypothesis is accepted as p value is .000 which is less than .05 at 5% level of significance.

H_4: Location quality of the bank significantly affects loan customer loyalty switching behaviour. The hypothesis is accepted as p value is .000 which is less than .05 at 5% level of significance.

H_5: Promotion of the bank significantly affects loan customer loyalty switching behaviour. The hypothesis is rejected as p value is .055 which is greater than .05 at 5% level of significance.

H_6: Customer satisfaction from the bank significantly affects loan customer loyalty switching behaviour. The hypothesis is accepted as p value is .002 which is less than .05 at 5% level of significance.

H_7: Switching cost of the bank service significantly affects loan customer loyalty switching behaviour. The hypothesis is accepted as p value is .000 which is less than .05 at 5% level of significance.

Conclusion and Recommendations

Based on the findings it can be concluded that Price, Service quality, Location, Customer satisfaction and switching cost variables significantly affects switching behavior of loan customers at 5% level of significance while Reputation and Promotion by the bank do not have significant effect on switching behavior of customers. Out of five significantly effecting factor Location (accessibility of the bank) is the most important factor followed by Price (loan interest rate) followed by service quality (consideration, personalized attention to the customer).

On the basis of the results of this research, it can be 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. Though Price and Location are also found very significant contributors of loyalty, the top management must look into these factors and take decision taking into consideration feasibility of the service and the bank's profitability.

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.

Scope for future research

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. 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.

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