A STUDY OF THE FACTORS THAT DETERMINE CUSTOMER SWITCHING BEHAVIOR IN THE BANKING INDUSTRY

A Project Presented to the Graduate Faculty of the School of Business and Management

United States International University-Africa

In Partial Fulfillment of the Requirements for the Degree of Master of Science in Business Administration (MBA).

By

Stanley Kipkoech Rotich

1997
Abstract

Customer switching in the service industries generally and the banking industry specifically is a phenomenon that damages market share and profitability. It is argued in marketing literature that costs of acquiring new customers are much higher than costs of retaining current ones. The challenge for management of banking and financial institutions today is how to keep current customers and ways of attracting new ones.

This research was aimed identifying and examining behaviors of banks that caused customers to switch. It studied the variables that influenced customers' decisions to switch banks. It is hoped that this project will help managers and researchers understand customer switching from the perspective of the customer.

The major objectives of this study were to: identify the demographic characteristics of customers who switched banks; to identify what actions of banks, or their employees caused customers to switch from one bank to another, and; to help managers and researchers understand service switching from the clientele perspective.

This survey was conducted within the central Nairobi area and its environs. The sample group was taken from among the business community, employees of not-for-profit organizations and persons working with government bodies and parastatals.
For this research, data collection was based on both primary and secondary sources. A questionnaire with structured questions was developed and circulated. Judgment sampling, a non-probability technique, was used to identify respondents. The questionnaire was distributed to 130 respondents within Nairobi city, banking halls, Gigiri, residential estates, Kasarani area and Westlands. The first 100 satisfactorily filled questionnaires were coded and analyzed.

Data was analyzed mostly by use of computer, and manually as well. Depending on the nature of data, histograms, pie charts etc. were charted. Eight causal factors that influenced customers to switch banks were identified and a model developed. They are: price, inconvenience, core service failures, competitive issues, ethical problems, involuntary factors, failed employee responses to service failures, and service failure encounters.

The major limitation for this research was inadequacy of time. Research development, data collection and analysis had to be done in three months.
STUDENT'S DECLARATION

I, the undersigned declare that this is my original work and has not been submitted to any college, institution or university other than the USIU-A for academic credit.

Signed Stanley Kipkoech Rotich Date June 10, 1997

Stanley Kipkoech Rotich

This project paper has been presented for examination with my approval as the appointed supervisor.

Signed M/S Beatrice Sabana

Date 5/6/97

M/S Beatrice Sabana

______________________________________________________________

Signed M/S Beatrice Sabana

Date 5/6/97

M/S Beatrice Sabana

Coordinator, Business Administration Department

Signed Dr. Chege Waruingi

Date 9/6/97

Dr. Chege Waruingi, Professor of Marketing

Dean, Academic Affairs
DEDICATION

To my loving parents, Gedion and Selina Rotich for their consistent love and support and, for nurturing in me the dream of an MBA and transforming it into a reality. Also to my young brothers and sisters, that they may use this as a yardstick for their ambitions in life, and come no less. And to the memory of my late sister, Gladys Jeruto who would certainly have achieved the same, and more.
ACKNOWLEDGMENT

Many thanks go to my supervisor, M/S. Beatrice Sabana who guided me through the research and opened my mind to wider academic horizons. I am greatly indebted too to Anthony Karimi and my other friends and colleagues at USIU-A who gave me the support I needed to effectively shape up this project. I would also like to thank Mr. Joe Kadhi under whom I worked as a Graduate Assistant for granting me time off to research and study. I cannot forget all the good people who filled the questionnaire thus making this survey possible. My profound gratitude also goes to my uncles; John Rotich for his support and Stephen Kipkenda for the printing and binding of this project. I must thank Judith Boss for her constructive criticism and editing and Evans Kwambai for the layout and graphics. I cannot forget William Tanui of RIVATEX for his ceaseless inspiration which kept me going when all seemed lost. To you all I say "thank you" for your invaluable assistance and may God bless you.
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CHAPTER ONE: INTRODUCTION

For many years in Kenya, the concept of banking had been contained behind gates and barred tellers' cages. The banks chiefly concerned themselves with systems and accounting. In the last six to eight years, there has been a major move from the product concept to extensive customer contact. Competition in the banking industry has become so stiff in Kenya today that banks have begun taking the marketing activity a lot more seriously. They are appreciating the fact that today's customer has a choice for service providers.

Compared to half-dozen years ago, there is an increased emphasis on information about customers which enables a bank to confidently sell services that fit the needs and wants of customers. Completely satisfied customers not only remain loyal to a company but they also sell the company to other potential clients by word of mouth. A financial institution can have a big advantage here. When it sells a service, it generally creates a customer who can be retained and easily persuaded to buy more.

The problem facing finance and banking houses is intensified competition. The challenge here is how to increase market share in an environment of more rapid economic change, improved technology, and an increase in the number and complexity of banking services.

Banks know the importance of keeping close to the customer. Yet very many do not deal seriously with customer service. At best, they mention service operations as an afterthought: more often they
simply ignore service in their conviction that pure technology is all that really matters. While technology is a prerequisite for success, banks that possess it will go nowhere unless they also possess deep insight about all of their customers' needs, including service. Customer service is increasingly becoming a make or break factor for the banking industry today. It is a potent competitive weapon in every industry.

More sophisticated customers are demanding better service to cope with more complex service and products. Thanks to the booming global competition, they have little loyalty and plenty of alternatives. They can switch banks as and when they want.

Service is here understood to be a combination of two factors—the technology to support effective account administration and the use of technology to build relations. Banks have made a major investment in technology to automate many of the back-office functions and free staff to concentrate on building relationships with customers. Technology may also be used to develop a personal portfolio of services for individual customers. Database information is a vital element in building customer profiles and tailoring services to them. The point to note here is that no matter how advanced the technology used, customers will still switch banks unless a strategic fit is established between the various operations.

This study was based on the premise that consumers evaluate services in a detailed and comprehensive manner. Consciously and unconsciously they evaluate the quality of service in their banks and if dissatisfied, they switch. Consumers are constantly exposed to promotional print and
electronic media which invariably affects their psychological set and soon they recognize the need to switch banks. They selectively evaluate other service providers in terms of benefit association and expected satisfaction. This survey therefore attempted to unearth the switching behavior of customers in the banking industry.

1.1 The Banking Industry in Kenya

For many years the number of players in the banking industry in Kenya was limited. Government regulatory practices acted as barriers to entry. The older and well established banks e.g. Standard Chartered and Barclays Bank tended to dominate the industry both in terms of corporate and personal banking services.

In Kenya today, more and more banks are radically changing their business practices in order to quickly and creatively respond to the banking customer's changing needs. Banks are incorporating new management practices such as Total Quality Management and Business Re-engineering so as to be efficient and effective in their services. There is a willingness to try new approaches in the ongoing competitive battle for financial service customers.

Banks offer many services. Besides the basic offer, other banks have been creative enough as to give enhanced and creative services. For instance, the Automated Teller Machines can be spotted in strategic points in town - making 24-hour banking a reality. PostBank insists that one does not have to be an account-holder with them to enjoy the use of their credit card. The Cooperative bank is
giving convincing benefits to their credit cards. The Standard Chartered bank introduced what they called the Supersave Account with chances of one driving a sleek Mercedes Benz as an inducement. Many banks have modified their banking halls either to make them spacious or more appealing and convenient to the customer.

There has been increasing creativity in marketing strategies within the banking industry—in the widespread use of supermarket banks, lending by telephone, telemarketing, packaging services—placing emphasis on marketing supported with technology.

Unfortunately, even in some of the most prestigious banking institutions in Kenya, a high percentage of what goes on is without regard for the fact that there is a customer who uses the end product.

In the banking industry, just like any other industry, nothing should happen without first focusing on the market. Banks are beginning to realize that they cannot build the their services to suit their own tastes. Rather, they must shape themselves to suit the market. This is indeed the only way they can be guaranteed of "Customers for Life".

Incidence of bank switching and split banking¹ are fairly common in the banking industry. Banks today must lay long-term strategies if they have to perform better than the competitors. They must

¹ Bank switching is here understood to imply movement from use of one bank to another by a customer. Split banking refers to a customer, while retaining the current bank, switching some of the services to another bank.
constantly meet the dynamic needs and wants of customers and design appropriate promotion mix that targets consumers. They must aim at attaining total customer loyalty to minimize customer defections.

Banking institutions do not seem to be catering for their clients effectively. We read daily about customers complaining about poor services in various banks in which they run accounts. The following excerpts from the month of October 1996 alone point out the intensity of this disaffection. Such dissatisfaction with banks only serves to further alienate customers from their banks thus lending credibility to their switching. They are drawn from the Cutting Edge of The Daily Nation.

Oct. 2nd: A customer spent three hours getting a few travelers' cheques cashed at KCB's Mukurwe-ini branch. Two Italian tourists doing the same thing were there when she arrived and still there when she left. The reason? the bank had to get the exchange rates from KCB Headquarters.

Oct. 4th: Our recent complainant was right about Barclays, Thika, says Kirika Mugo. He went at 9 a.m. for an international money order, there was one cashier apparently doing everything, and he left at 1.30 p.m.

Oct. 11th: According to A. Odhiambo, this is what it is like trying to set up a company in Kenya. Bank: Six weeks talking to KCB but still no account...
Oct. 14th: Bank a cheque with KCB and they charge Shs. 2,000 per day until it clears. Since that could be 14 days for upcountry cheques, you could end up with Shs. 20,000 from a Shs. 48,000 cheque.

Oct. 15th: If you live in Nakuru and you want to buy treasury bills, you can, a) travel 158 km north to CBK, Eldoret, or b) travel 157 km to CBK, Nairobi. Perhaps CBK should consider appointing agents to handle the tenders around the country.

Oct. 23rd: We can see why banks put some of their ATMs inside their own premises but that’s not 24-hour banking, is it? John Ng’enga was nearly stranded in Eldoret when he found Standard Chartered’s Moneylink machine securely locked behind doors.

All these describe a scenario where customers are dissatisfied with services and behaviors of their respective banks. These customers could easily switch banks if their complaints are not addressed.

1.2 Statement of the Problem

Customer switching behavior does immense damage to market share and profitability of banks but has not been given much attention by the banking industry. Many factors contribute to customer switching behavior. More attention is paid to customer-related factors rather than bank-related factors. Consequently, there is lack of information relating to the behaviors of financial institutions which cause customers to switch banks.
There was need therefore to develop a model for customer switching behavior in the banking sector for the benefit of bank management and for further research. This study sought to identify the behaviors of financial institutions that caused customers to switch banks.

1.3 Purpose and Objectives of Research

The purpose of this research was to identify and examine the behaviors of banks that caused customers to switch banks. The specific objectives were:

i) to identify the demographic characteristics of customers who switch banks,

ii) to identify what actions of banks, or their employees, cause customers to switch from one bank to another, and

iii) to create a model for managers and researchers to understand service switching in financial institutions from clientele perspective.

1.4 Significance of Study

The survey was intended to help managers of financial institutions and interested researchers understand service switching from the customer perspective. This would have the effect of aiding design strategies for programs for customer loyalty and delight. It gives insights into service provisions that would aid in customer retention rather than customer defection. This study will help
banks understand the behaviors that they engage in that are repulsive to consumers of their services. Inversely, the study gives indications into what banks can do to keep loyal customers thus engage in profitable business. It is also hoped that from this study, researchers will be provided with a foundation for future research.
CHAPTER TWO: LITERATURE REVIEW

2.1 Conceptual Background

Conceptual background was explored along these lines:

i) Customer perception of quality in the banking industry,

ii) Behavioral intention variables, i.e. a) intentions to switch, and

b) intentions to repatronize a service,

iii) relationship between satisfaction and service quality and service switching.

There are various types of models which have been advanced by scholars of marketing. They include: descriptive, predictive, normative, iconic and symbolic. Models are representations of reality. For the marketing manager, models are representations of relationships with regard to various marketing functions.

The typical descriptive model in marketing will present information in a way that identifies the components of some market or system. Philip Kotler\(^2\) develops a model of consumer behavior in which he shows that consumer's buying decisions are produced by certain factors:

Marketing stimuli include:
- Product
- Price
- Place
- Promotion

Environmental influences:
- Economic
- Technological
- Political
- Cultural

Buyer's Decisions include:
- Product Choice
- Brand Choice
- Dealer Choice
- Purchase Timing

Marketing practitioners and academics frequently use descriptive models to depict large systems, with large numbers of variables and interactions. The above model as advanced by Kotler depicts consumer purchase decisions as being a process influenced by external stimuli. This invariably impacts on consumer's decision on which bank(s) to patronize.

Where competition is so intense as is the case in the banking industry, completely satisfied customers are much more loyal than satisfied customers. Any drop from total satisfaction results in a major drop of loyalty. Having conducted an extensive research of dozens of manufacturing and
service companies in America. Jones and Sasser\textsuperscript{3} concluded that four elements influenced customer switching. They are:

i) The basic elements of the service that customers expect all competitors to deliver,

ii) basic support services such as customer assistance or order-tracking that make the service incrementally more effective and easier to use,

iii) a recovery process for counteracting bad experiences, and

iv) extra-ordinary services that so excel in meeting customers' personal preferences in appealing to their values, or in solving their particular problems that they make the service seem customized.

Parasuraman et al\textsuperscript{4} of the Texas A & M University propound the argument that understanding customer expectations is a prerequisite for delivering superior service. Consequently, a bank will have a competitive advantage that will see customers switching to it rather than away from it. They argue that on joining a bank, customers have varied expectations based on different influencing factors. They did a comprehensive survey of the service industry in which they studied how companies can manage customer expectations to enhance their perceptions of service and what companies can do to exceed customers' expectations therefore holding them back from switching.

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\textsuperscript{4} Parasuraman et al, Marketing Services: Competing Through Quality (New York: The Free Press, 1991)
Parasuraman categorizes customer service expectations into five overall dimensions: reliability (the ability to perform the promised service dependably and accurately), tangibles (the appearance of physical facilities), responsiveness (the willingness to help customers and provide prompt service), assurance (the knowledge and courtesy of employees and their ability to convey trust and confidence), and empathy (the caring, individualized attention provided to the customer). Customers judge the accuracy and reliability of the delivered service and if not completely satisfied, they switch services.

Ian Linton\(^5\) describes how a combination of product development and personal service would help keep customers from defecting. They include: using card marketing to segment the market and maintain customer loyalty; offering customers greater choice and packaging services to appeal to specific groups of customers; increasing customer convenience by using appropriate new technology; matching financial services to customers' needs to increase dependence, and helping customers build international business by offering a bank's experience and skill.

According to Davidow and Bro Uttal\(^6\), designing a core service to avoid breakdowns and recover from them quickly is even harder than designing a product for easy repair. They advance the argument that with a product, the technical specifications give the designer good hunches about how and when the product will fail. On the other hand technical specifications may mean very little when designing a service. A bank may specify that tellers handle most deposits within thirty


seconds and achieve 98 percent accuracy. Yet, tellers' service is co-produced with customers. For instance, the customer who hands over an illegible deposit slip instantly changes the teller's production function. The implication of this therefore is that, customer perceptions of service quality are more complex and more personalized than perceptions of product quality. This makes it much more easier for a customer to switch services than to switch products.

Knowing and understanding the customer is no longer a choice, it is critical for survival\(^7\). Effective strategy moves are grounded in valid and insightful monitoring of current competitive position, coupled with evidence of commitment to customers. Successful strategies not only capitalize more effectively on the key success factors in an industry, they also build on customer retention policies.

A good bank will acknowledge the fact that it is entirely feasible to be more clearly customer-focused than any other competitor. As Ohmae\(^8\) notes, strategy is not beating the competition, it is serving customers' real needs. The effects of this on strategy will truly be symbiotic, and the one plus the other will indeed result in synergy.


G. Lynn Shostack, a senior vice president at Bankers Trust Company, presented a paper in which he discussed how to blueprint services in order to design and control them more effectively. Using elaborate flow charts to diagram services, Shostack placed special emphasis on specifying the stages of the process where failures might occur (invariably leading to customer switching), often because of the customer's role in service, and on laying out steps to recover from failures. He recommends that managers look very closely at every step in the service process, find the potential failure points, and design back-up steps that would keep the customer from switching.

Poor service can be very costly to service rendering industries. There is no proven method for measuring these costs, but a common rule of the thumb is that the marketing costs of landing a new customer run three to five times the marketing costs of retaining an old one. In the case of retail banks, surveys by Raddon Financial Group, an American consulting firm, indicated that in 1987, 42% of the consumers who switched banks did so because of service failures.

Some of the most suggestive evidence about the money companies can save by providing superior service and building customer satisfaction comes from studies of consumer complaint behavior. For several years A.C. Nielsen Co. surveyed some customers of one large food processor to find out

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how often they complained when they were dissatisfied and what they were likely to do about their lack of satisfaction. Nielsen's findings: only 2% of all the dissatisfied customers complained, while 34% of all the dissatisfied penalized the manufacturer by quietly switching brands. Another 4% stopped buying any manufacturer's brand of the offending product type.\(^{12}\)

In the past, banks have taken loyalty amongst existing customers as given and focused on getting new customers to replace those that may have switched. It was most unusual to find a bank devoting a significant proportion of its marketing budget on customer retention programs. Data by Bain and company\(^ {13}\) observed that a 5% increase in customer retention can boost profits anywhere between 25 to an astonishing 85% across service and manufacturing industries.

In the simplest sense, switching costs a bank the customer's future revenue stream. But this loss can be immense if all factors are considered: First, because continuing customers increase their spending at an increasing rate therefore their utilization of more services offered by the banks. This creates operating efficiencies for banks. On the other hand, the loss of a continuing service customer is a loss from the high-margin sector of the firm's customer base\(^ {14}\). Second, costs associated with acquiring new customers are incurred. Tom Peters\(^ {15}\) asserts that new account set


\(^{13}\) Simon Knox, "Transforming Brand Management from a Functional Activity into a Core Process", *Journal of Marketing. 10, NO. 7 pp.626-627*


up, credit searches, and advertising and promotional expenses can add up to five times the cost of efforts that might have enabled the firm to retain a customer. He adds that operating costs rise as the bank learns the needs of its new customers and as the customer learns the procedures of the bank. This makes it imperative for bank decision makers to acquaint themselves with customer switching behavior if they are to avoid the revenue-reducing and cost-incurring impacts of customer switching.

This survey was customer-based for a number of reasons. By focusing on customers, the researcher allowed the comparison of competitors and other switching attributes to be made by customers rather than by banks' management teams. This is summarized in the following figure:

![Diagram]

Day and Wensley’s assertion is supported by Leyland and Bromfield\textsuperscript{16} who advance that consumers have been found to apply different evaluation procedures to make a choice among multi-attribute services such as competitive products. From this, a researcher can gain diagnostic insights (what can be improved, made different, or exploited) from the relative importance of given switching attributes.

2.2 Summary

The foregoing review presents diverse views of customer-switching behavior. Suffice it to say that most prior research focuses on quality, satisfaction, or service encounters. There is little on bank switching specifically. This study attempted a contingency of all the perspectives above but the model developed will use variables focusing on the Kenyan context. It is important to note that all the studies were conducted in Europe and America where consumer values and attitudes are significantly different and are influenced by different factors.

CHAPTER THREE: RESEARCH DESIGN

3.1 Type of Research

The exploratory approach to research was used for this study. This exploratory study was designed to establish the behaviors of banks that influenced switching of customers in the banking industry.

3.2 Data and Data Sources

For purposes of this research, both primary and secondary data were collected. Primary data was sourced by way of questionnaire. It included information on behaviors elicited by banks along the following categories: pricing, inconvenience, core-services failure, failed service encounter, response to failed service, ethical problems, competition and voluntary switching.

3.3 Survey Instruments

This research was a survey. Primary and secondary sources of data were used. Since data was collected from different parts of Nairobi at the same time, cross-sectional data was used. Since it was not feasible to establish the habits, views or requirements of every member of the
banking population, it was only practical to select a sample. Sampling allowed concentrated attention upon a relatively small number of people thus ensuring that the information collected from them was accurate.

It is with these in mind that this research used the non-probability sampling technique (also called the "researcher controlled samples"). The general category of non-probability sampling used was judgment Sampling. A representative sample of the population was drawn using the judgmental sampling procedure. The drawback of this procedure is that it led to some amount of variable and systematic error.

The sample population was defined thus:

Financial services users, who worked in governmental agencies and private companies and/or not-for-profit organizations, that had switched banks in the last four years. It was restricted to individual customers (personal banking) rather than corporate ones.

3.4 Sample Size:

The sampling size was 100 respondents selected from various walks of life. The various elements of the population (and the rationale for their selection) was represented using the following sampling frame:
Banking halls: Moi Avenue (Standard Chartered and Barclays Bank), Mama Ngina Street, (Trans-National Bank), Banda Street (Postbank Headquarters)

Government: Ministry of Finance, Ministry of Foreign Affairs and International Cooperation

Global companies: Procter & Gamble, Unilever (East Africa Industries), General Motors

Not-for-profit: United Nations, Helpage (Kenya), Ford Foundation

Organizations:

Residences: Eastlands, Westlands, Langata, Gigiri, Mathare North, South B

Choice of the above sampling was influenced by the assumption that respondents banked with large global banks (e.g. Standard and Barclays), small banks (e.g. Trans-National Bank) or populist "mwanauchi" banks (e.g. Postbank). They either worked for the public sector (Government and parastatal organizations), or with commercial concerns (both local and global), or with non-governmental organizations. Choice of residence is a factor of income and assumed status. Since people residing within a locality have been known to exhibit some relative degree of commonality in behavior, conducting the research amongst respondents in low cost estates (e.g. Mathare North), and middle and high cost estates (e.g. Gigiri) was useful.

3.5 Data Collection Methods

A questionnaire was used for this survey. The questionnaire developed served two functions:
translated research objectives into specific questions the respondents could answer, and

- it motivated the respondent to cooperate with the survey and to furnish the information correctly.

Precise information was sought and ambiguity avoided. Where specific questions were unclear to the respondent, the researcher made clarification. To a larger extent, close-ended questions were used. Questions were arranged in a logical order. Specifically, the questionnaire developed addressed the following categories along which customers' reasons for switching services were studied:

i) Pricing: Included switching that involved prices, rates, fees, surcharges, service charges, penalties, price deals or price promotions.

ii) Inconvenience: Included situations where the customer felt inconvenienced by the bank location, hours of operation, waiting time for service, or waiting time to get an appointment, the appearance of physical facilities.

iii) Core-services failure: Switching owing to mistakes or other technical problems with the service itself.

iv) Failed service encounter: Switching influenced by personal interactions between customers and employees of banks, inability to help customers and provide prompt service.

v) Response to failed service: Customer switching, not because of a service failure, but because service providers failed to handle the situation appropriately.
vi) Ethical problems: Included description of illegal, immoral, unsafe, unhealthy or other behaviors that deviated widely from the social norm.

vii) Competition: Customers' switching to a better service provider rather than from an unsatisfactory provider.

viii) Involuntary switching: Switching because of factors largely beyond the control of either the customer or bank e.g. bank moved, closed down, changed ownership etc.

3.6 Data Analysis

The Questionnaire was checked for completeness and logical relationships before it was administered. Out of the 130 questionnaires that were circulated, the first 100 fully filled questionnaires were coded. Editing and coding was done to eliminate errors in raw data and to process data so that tabulation could be done.

Having edited all questionnaires and placed responses in proper classes and categories, the data was then fed into the computer for analysis. Summary measures such as percentages and ranges were determined using the computer (Windows Excel 6.0. package). This was done to determine the relative importance of each sub-category within given factor categories.

A factor analysis was conducted on the variables used to determine the important behaviors that influenced switching of banking services. This helped shed light into the most important factors that influenced customers to switch banks.
CHAPTER FOUR: RESEARCH FINDINGS

4.1 Characteristics of the Sample

Demographically, 64% of respondents were male and 36% were female (FIGURE 1), 52% were single, 43% married, 2% divorced and 3% widowed (FIGURE 2). Respondents were drawn from ages 20 to 59 with the majority (33%) falling in the age category 30-34 (FIGURE 3). Tallied with their occupations, this is probably the category that is at the peak of their professional careers.

FIGURE 1:

<table>
<thead>
<tr>
<th>GENDER</th>
<th></th>
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<tbody>
<tr>
<td>MALE</td>
<td>64</td>
</tr>
<tr>
<td>FEMALE</td>
<td>36</td>
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![Gender Distribution Chart]
FIGURE 2:

<table>
<thead>
<tr>
<th>MARITAL STATUS</th>
<th></th>
</tr>
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<tbody>
<tr>
<td>SINGLE</td>
<td>52</td>
</tr>
<tr>
<td>MARRIED</td>
<td>43</td>
</tr>
<tr>
<td>DIVORCED</td>
<td>2</td>
</tr>
<tr>
<td>WIDOWED</td>
<td>3</td>
</tr>
</tbody>
</table>

FIGURE 3:

<table>
<thead>
<tr>
<th>AGE CATEGORY</th>
<th></th>
</tr>
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<tbody>
<tr>
<td>20-24</td>
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<tr>
<td>25-29</td>
<td>23</td>
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<tr>
<td>30-34</td>
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<tr>
<td>35-39</td>
<td>8</td>
</tr>
<tr>
<td>40-49</td>
<td>17</td>
</tr>
<tr>
<td>50-59</td>
<td>7</td>
</tr>
</tbody>
</table>
The respondents were well educated, with 56% holding at least a Bachelor's degree.

(FIGURE 4).

FIGURE 4:

<table>
<thead>
<tr>
<th>LEVEL OF EDUCATION</th>
<th>Count</th>
</tr>
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<tbody>
<tr>
<td>Secondary</td>
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<tr>
<td>Tech Training</td>
<td>11</td>
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<tr>
<td>College</td>
<td>28</td>
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<tr>
<td>University</td>
<td>56</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
</tbody>
</table>
This indicates that the sample was highly elitist. However, this should not be misconstrued to mean that the majority of bank users enjoy university education. An educated group is capable of making rational rather than emotive choices.

In terms of occupation, respondents ranged from businessmen, Sales and Marketing Executives, Finance officers, Civil servants, Teachers, Production Engineers, Pharmacists, Lawyers and Administrators to members of diplomatic community.

Among the banks with which the respondents currently held accounts included Standard Bank, City Finance, National Bank, Victoria Commercial Credit, Chase Bank, Euro Bank, Kenya Commercial Bank, Barclays Bank, Transnational Bank, Commercial Bank of Africa, Co-operative Bank, ABN-AMRO, Giro bank and Citibank. This cuts across the banks in Nairobi. What is interesting to note is that while customers moved from one bank, others moved to the same.

Interestingly, a number of respondents indicated having switched from one branch of the same bank to another. This indicates that different branches of same bank may have cultures that are unique to them thus impacting on their degree of efficiency and effectiveness. This suggests a variance in consumer tastes and perceptions.
4.2 RESULTS: A MODEL OF CUSTOMER SWITCHING BEHAVIOR IN THE BANKING INDUSTRY

A verbal model is one in which the variables and their relationships are described in prose rather than mathematically. When variables cannot be expressed by way of mathematical equations, their verbal interpretation is the only alternative\textsuperscript{17}. A verbal model is therefore presented.

4.2.1 Pricing (FIGURE 5)

FIGURE 5:

<table>
<thead>
<tr>
<th>PRICING FACTORS</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for Accs</td>
<td>72</td>
<td>28</td>
</tr>
<tr>
<td>C/f other banks</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td>Minimum Balance</td>
<td>14</td>
<td>86</td>
</tr>
</tbody>
</table>

---

\textsuperscript{17} Amarchand, D. and Varadharajan, B., *Marketing* (New Dehli: Konark Publishers PVT., 1989)
This category included all switching that involved pricing, rates, fees charges, service charges, penalties etc.

Pricing subcategories included a) high charges for operating accounts, (b) high charges compared to other banks, (c) unjustified price increases.

In subcategory a) 72 % of respondents switched banks because they deemed prices too high relative to the services they received.

In the second subcategory, 45 % of the respondents switched because prices were deemed too high relative to competitive prices offered by other banking institutions.

In the third sub-category, 66 % of customers did not feel that the minimum balance was raised suddenly and without good reason.

This indicates that bank customers demand value for money. The sample did not mind paying a little more premium for quality service. Poor service was not an excuse for lesser charges.

4.2.2 Inconveniences (FIGURE 6)

FIGURE 6:

<table>
<thead>
<tr>
<th>INCONVENIENCE</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>58</td>
<td>42</td>
</tr>
<tr>
<td>Hours of Opn</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>Time Consuming</td>
<td>86</td>
<td>14</td>
</tr>
</tbody>
</table>
The "Inconvenience" category included all switching in which the customers felt inconvenienced by the service provider's location, hours of operation, waiting time for service, or waiting time to get an appointment.

Inconvenience factors were sorted into three subcategories; The first included customers who switched because of location ("the location of the bank were quite inconveniencing") where 58 % customers responded in the affirmative; in the second, 56 % of customers switched because of inconvenient hours of operation ("hours of operation were not conductive"); in the third 86 % customers switched when it took too long to schedule an appointment and when they waited too long for service delivery ("it took so long to get appointment and the queues were very long")

This suggests that waiting time is an important influencing factor in a customer’s decision to stay on or switch over to another bank. Banks must seek ways of reducing queues, and must schedule appointments sooner, or better still maintain open-door policies for their customers.
4.2.3 Core Service Failure (FIGURE 7)

FIGURE 7:

<table>
<thead>
<tr>
<th>CORE SERVICE FAILURE</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorrect billing</td>
<td>33</td>
<td>67</td>
</tr>
<tr>
<td>Correction Failure</td>
<td>70</td>
<td>30</td>
</tr>
</tbody>
</table>

Core service failures included all switching owing to mistaken or other technical problems with the service itself.

Two sub-categories of core service failures represented a) billing errors, and b) Correction failure.

The first included service catastrophes leading to customers’ billing errors as soon as they were identified. 70% of respondents opined that banks did not correct errors in good time.

Banks must develop remedial measures in which customers’ complaints are addressed as soon as they occur, rather than delay customers thus inconveniencing them.

4.2.4 Service Failure Encounters (FIGURE 8)

FIGURE 8:

<table>
<thead>
<tr>
<th>SERVICE FAILURE ENCOUNTERS</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inattentive</td>
<td>44</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td>--------</td>
<td>------</td>
</tr>
<tr>
<td>Uncooperative</td>
<td>58</td>
<td>42</td>
</tr>
<tr>
<td>Unknowledgeable</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>Incompetent</td>
<td>18</td>
<td>82</td>
</tr>
</tbody>
</table>

Service failure encounters were defined as personal interactions between customers and bank employees.

Service encounter failures were all attributed to some aspect of bank employees' behaviors or attitudes: if employees were 1) inattentive, 2) uncooperative, 3) unknowledgeable and 4) incompetent, customers switched banks.

Inattentive service contact personnel (e.g. bank tellers) did not listen to customers (44%). 58% of customers switched because bank employees were uncooperative, uncaring or were not helpful.

Incompetence was not a major influencing factor in customer switching as only 18% of the respondents asserted that bank employees "were not versed in the state-of-the-art techniques e.g. computers".

Apparently, banks seem to offer much training and development for their human resources. This explains why staff competence was rated high. Even then, staff must be encouraged and motivated to show total concern for the customer.
4.2.5 Employee Responses to Service Failures (FIGURE 9)

FIGURE 9:

<table>
<thead>
<tr>
<th>EMPLOYEE RESPONSES TO SERVICE FAILURE</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reluctant</td>
<td>59</td>
<td>41</td>
</tr>
<tr>
<td>Unresponsive</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Ignored</td>
<td>52</td>
<td>48</td>
</tr>
<tr>
<td>Apportioned blame</td>
<td>49</td>
<td>51</td>
</tr>
</tbody>
</table>

The "employee responses to service failures" category included all switching in which customers changed banks, not because of a service failure, but because service providers failed to handle the situation appropriately.

Employee response to service failure were sorted into four subcategories; a) reluctant, b) unresponsive, c) ignored, and d) apportioned blame.

In "Reluctant responses" 59 % of respondents agreed that service providers responded to service failures and made corrections -but with obvious reluctance. Total failure to respond to problem was cited by 40 % of customers.
In the third subcategory 52% of respondents felt that while they thought their complaints were legitimate, service providers chose to ignore them.

In the fourth subcategory 49% of customers switched because bank employees attributed blame for the failure in service to them.

Banks must therefore demonstrate total commitment to handling customer grievances. Service providers ought to give customers undivided attention and treat all grievances, however small, with the seriousness they deserve.

4.2.6 Ethical Problems (FIGURE 10)

FIGURE 10:

<table>
<thead>
<tr>
<th>ETHICAL PROBLEMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
</tr>
<tr>
<td>Cheated</td>
</tr>
<tr>
<td>Stole</td>
</tr>
<tr>
<td>Intimidated</td>
</tr>
</tbody>
</table>

This category included switching owing to bank employee practices that were illegal, immoral or deviated from social norms.

Three subcategories of unethical behaviors included a) cheating, b) stealing, and c) intimidation.

In the first subcategory 68% of respondents felt cheated by bank staff e.g. they were charged for work not performed.
In the second subcategory no single customer had their money and/or personal belonging stolen by bank employees. This is also true for subcategory three. No customer switched services because they were yelled at or intimidated.

Generally, bank personnel did not cheat on customers. However, banks need to revise their charging and penalty policies because some of these policies make customers feel cheated.

4.2.7 Involuntary Switching (FIGURE 11)

FIGURE 11

<table>
<thead>
<tr>
<th>INVOLUNTARY SWITCHING</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Closed</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Transferred</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Other Problems</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

This category described switching because of factors largely beyond the control or either the customer or the bank.

These included involuntary switching because the bank had closed or the customer had moved (43%).

No other reasons were identified as having influenced involuntary switching. No respondents cited any collapse of previous banks.

34
4.2.8 Competition (FIGURE 12)

FIGURE 12:

<table>
<thead>
<tr>
<th>COMPETITION : (other Bank)</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well Maintained</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>More Personable</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Easier Lending</td>
<td>54</td>
<td>46</td>
</tr>
</tbody>
</table>

The "attraction by competitors" category included switching in which customers switched to a better bank rather than from an unsatisfactory provider.

All the respondents switched to banks which were more personable and well maintained.
Easier access to loans and overdraft facilities in the "other bank" made 54% of the respondents switch.

Banks must develop sustainable competitive edges that will distinguish them as being superior service providers, relative to competition. Banks ought to enhance their personal banking and customer service divisions. They should aim at being the market leaders in whatever market segments they target.
CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The model of determinants that make customers switch banks presented here defines the domain of customer switching from the perspective of the customers themselves.

Specifically, the model of customer switching in the banking industry proposes eight main causal variables including price, inconvenience, core service failure, service failure encounters, failed employee responses to service failures, competitive issues, ethical problems, and involuntary factors.

Notably, core service failure encounters, failed employee responses to service failures, and inconvenience cause customers to switch services.

The consequence of the variables analyzed indicates that customers not only experience dissatisfaction but actually take action to switch banks. The implication of this survey for both managers and for further research is that service quality and satisfaction, service encounters, and
service design which are frequently researched variables ought to be considered along with price, competition, ethical issues, and other factors if customer switching in the banking industry is to be fully understood.

5.2 Recommendations for Managers and Researchers

The survey unveiled numerous implications for bank managers. There is need to develop customer retention strategies in banks. An important implication for managers is that most of the switching factors are controllable from banks' point of view. Managers need to take action to prevent customer switching. For example, if core service failures cause customers to switch, then a "no error" philosophy to deliver a technically correct service every time should be effective in reducing customer defections. The proposition that failed responses to service may cause customers to switch suggests the importance of developing policies for effective service recovery. As seen from this study, customer switching may be caused by inconvenience. This implies that effective queue management, timely delivery of service, and efficient management of appointment systems might reduce defections.

Customer switching caused by unsatisfactory employee-customer interactions might be reduced by teaching employees to listen to customers ("customer is right" adage), keep customers informed, explain procedures and by training employees in technical, state-of-the-art knowledge. The proposition that customers may switch banks for price related reasons implies a need for careful management of pricing policies, especially where a bank charges higher-than-competitive prices or
is considering increases in fees, service charge or penalties. From the foregoing survey, evidence of ethical problems suggests that banks might develop behavior-based systems to reward ethical conduct and discourage unethical conduct among staff.

5.3 Limitations and areas for Further Research

This survey successfully identified possible causal factors for customer switching in the banking and financial industry. However, further evaluative research, including controlled manipulation of proposed causal variables, is needed to test actual cause and effect. Time was a major limitation for this research.
APPENDIX

Dear Respondent,

The researcher is a student at the United States International University pursuing courses leading to the award of Masters degree in Business Administration (Marketing option). The interest of this research is to establish and analyze the factors of banks that make customers switch services (Defect) to other financial institutions. The findings of this research are strictly for academic purposes and your responses shall be treated with utmost confidence.

Please spend some time to enter your sincere responses to the following questions.
Section One

1. Have you switched (changed) banks in the last FOUR years?

   Yes _____  No _____

2. If the answer to question 1. (above) is YES, proceed to Section Two. If NO, ignore the Questionnaire.

Section Two

3. Gender;

   Male _____  female _____

4. Marital status:

   single _____  married _____
   divorced _____  widowed _____

5. Please circle the age category under which you fall

   a) under 20 years  b) 20-24  c) 25-29
   d) 30-34  e) 35-39  f) 40-49
   g) 50-59  h) 60 or over

   41
6. Please circle the highest level of education you have attained to date?

   a) primary       b) secondary       e) university
   c) technical training d) college f) other

7. Please state your occupation? __________________________

8. Please list the bank(s) with which you currently hold accounts

   a) ___________ b) ___________
   c) ___________ d) ___________

Section Three

9. Please indicate whether you Strongly agree, Agree, Disagree, Strongly disagree with the following statements in relation to your having switched banks i.e. how strongly they did, or did not, influence your decision to change banks.
<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. a) The charges for operating accounts became too high compared to the services received</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>b) The charges were too high compared to other banks' charges</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>c) The minimum balance was raised suddenly and without good reason</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>11. a) The location of the bank was quite inconvenienting</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>b) Hours of operation were not conducive</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>c) It took so long to get an appointment, and the queues were very long</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Strongly agree</td>
<td>Agree</td>
<td>Disagree</td>
<td>Strongly disagree</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------</td>
<td>-------</td>
<td>----------</td>
<td>-------------------</td>
</tr>
<tr>
<td>12. a) I was incorrectly billed or debited</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>b) The bank failed to correct billing errors in a timely manner</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>13. Bank employees;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Did not listen to me</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>b) They did not accommodate my requests</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>c) They did not give me required information</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>d) were not versed in the state-of-the-art techniques e.g. computers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
14. When bank employees made mistakes, they:

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) responded with obvious reluctance</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>b) failed to respond totally to problem</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>c) ignored my complaint</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>d) falsely attributed the blame for the failure to me</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

5. Bank staff;

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>) made me feel cheated</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>) stole my personal belongings and/or money</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>Agree</td>
<td>Disagree</td>
<td>Strongly disagree</td>
</tr>
<tr>
<td>---------------</td>
<td>-------</td>
<td>----------</td>
<td>------------------</td>
</tr>
<tr>
<td>c) intimidated and yelled at me</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

16. I switched because;

a) the bank closed down  
   1 | 2 | 3 | 4

b) I changed towns  
   1 | 2 | 3 | 4

c) I had problems with other customers  
   1 | 2 | 3 | 4

17. The bank I switched to;

a) was well maintained  
   1 | 2 | 3 | 4

b) was more personable  
   1 | 2 | 3 | 4

c) offered loans and overdraft facilities much more easily  
   1 | 2 | 3 | 4

8. Please give other reasons (other than those above) that made you switch bank services
BIBLIOGRAPHY


