Segmentation of Bank Customers by Loyalty and Switching Intentions

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In a highly competitive world, it is imperative to understand why customers switch, as switching has a significant impact on a firm’s performance. Just as satisfied customers are not necessarily loyal, dissatisfied customers do not always exit (Yanamandram & White, 2006). Even then much attention has been diverted towards growing relationships as compared to ending of the same (Akerlund, 2005; Halinen & Tahtinen, 2002).

This study aimed at predicting customer switching through various relational and switching factors, viz., quality, value, satisfaction, trust, commitment, loyalty, switching costs and barriers, particularly in the context of Indian private banking. Further, the study investigated those traits of the customers, which would facilitate bank managers in formulating different retention strategies. The main findings of the study are:

• Majority of respondents have no intentions to switch their prime bank, but at the same time these respondents cannot be classified as true loyal.
• There exist two groups of respondents, i.e., ‘loyal stayers’ and ‘spurious stayers’.
• A direct relationship exists between ‘customer switching intentions’ on the one hand and ‘quick and effective responses to service failures’, ‘core services up to expectations’, ‘reasonable prices’, ‘switching costs’ and ‘switching barriers’ on the other.

Thus, banks need to undertake the following initiatives, which would be useful for increasing customer retention among bank customers:

• Promote commitment by implementing and demanding higher standards of conduct from the bank employees.
• Develop schemes/services that provide value to their customers in a sustained way and maintain them overtime in order to generate competitive advantage.
• Satisfy its customers, which can be implemented only when customers’ needs are known. Hence, every bank should have a separate R&D department, which can pursue market surveys on continual basis.
• Concentrate on the core service delivery and recovery, so as to seek competitive advantage.
• Focus on CRM strategies and develop wide-ranging relationships with their customers so as to make it difficult for them to switch their bank. In order to build profitable relationships, firms should not attempt to attract all customers in the market indiscriminately, but focus on those who are more valuable to the company.
Customer switching in service environment means customer forsaking one service provider for another (Garland, 2002). In many cases, customer defection is the sum of series of complex interrelated events and problems, which are encountered overtime and eventually, lead to defection (Santonen, 2007; Stewart, 1998). It has been estimated that of all defecting customers, 35 percent defect due to uncontrollable external factors from a customer satisfaction perspective; the remaining defection is caused by ‘controllable internal factors’ relating to the organization’s treatment of its customers. Controllable factors include price, poor service quality, problem resolution, merger, and location convenience (Trubik & Smith, 2000). Switching studies have considered dissatisfaction as the main factor influencing switching behaviour in the insurance industry (Crosby & Stephens, 1987) and poor quality in the banking industry (Rust & Zahorik, 1993). On the contrary, Anton, Camarero, and Carrero (2007) demonstrated service quality and organizational commitment as weak predictors, and price change and critical incidents as the strong predictors of switching intentions. Walsh, Dinnie, and Wiedmann (2006) confirmed postulated impact of customer satisfaction on customer switching intentions. In this context, Lam et al. (2004) in their B2B study revealed that satisfaction played a mediating role in determining the impact of customer value on customer loyalty, but Aydin and Ozer (2005) found trust as the most influencing factor that affected customer loyalty in service sector, particularly mobile phone users. In another study conducted by Gustafsson, Johnson, and Roos (2005), commitment and satisfaction were found to be positively related to customer retention in a telecommunication company. Beside these factors, switching barriers also influence customer retention both independently and in tandem. In this regard, Keaveney (1995) was one of the first to examine switching barriers as a determinant of customer switching behaviour. Usually, these switching barriers are used as marketing strategy to make it costly for a customer to switch to another organization and it includes search cost, transaction cost, learning cost, loyal customer discounts and emotional costs (Trubik & Smith, 2000). Further, Yanamandram and White (2006) also shared the view that alternative provider, switching costs, inertia, investment relationship, and service recovery were the basic reasons due to which dissatisfied customers stayed with their service provider. However, switching cost is just one factor due to which a customer may not switch. Other factors are relational investments, service recovery, and alternatives (Colgate & Lang, 2001). On the whole, it can be concluded that push, pull, and mooring variables have a significant effect on switching intentions, where push factors include quality, satisfaction, value, trust, commitment and price perception; pull factors consist of alternative attractiveness (Bansal, Taylor, & James, 2005); and mooring variables include attitude towards switching, switching cost, variety seeking, infrequent prior switching behaviour.

Several studies have been conducted on customer switching but covering only limited aspects of customer loyalty and switching behaviour in banks. For example, Stewart (1998) focused on the process of customer exit, while Trubik and Smith (2000) limited their study to only four aspects, thereby neglecting other factors such as switching costs, barriers, etc. Colgate and Lang (2001) investigated the relevance of switching barriers in banking and insurance sector but ignored quality, value, satisfaction, and loyalty. Burnham, Frels, and Mahajan (2003) studied drivers of switching costs. Bell, Auh, and Smalley (2005) studied the effect of customer expertise and switching cost on the relationship between service quality and customer loyalty. Further, Walsh, Dinnie, and Wiedmann (2006) analysed the effect of corporate reputation and customer satisfaction on customer switching behaviour. Hinson, Owusu-Frimpong, and Dasah (2009) focused on key motivators for maintaining accounts with banks. Matos, Henrique, and Rosa (2009) tested the effect of different roles of switching costs on the satisfaction-loyalty link.

Within this wide range of researches, very little attention has been given to why and when exchange relationship ends, especially with reference to customer relationships in services (Akerlund, 2005; Halinen & Tahtinen, 2002). But studies conducted by Bansal and Taylor (1999); Keaveney (1995), and Mittal and Lasser (1998) are exceptions. In 2005, Bansal, Taylor, and James empirically explored the applicability of push-pull-mooring (PPM) paradigm to the service switching. However, within this large paradigm, customer loyalty has been neglected, which discourages defection and increases repeat patronage and positive recommendations (Rowley & Dawes, 1999). Moreover, Bansal, Taylor, and James restricted their study to auto repair and hair styling services, findings of which cannot be generalized to financial sector.
Hence, the present study aimed at predicting customer switching through various relational and switching factors, viz., quality, value, satisfaction, trust, commitment, loyalty, switching costs, and barriers; particularly in the context of Indian private banking, which is confronting cut-throat competition not only from banking but non-banking institutions as well. In retail banking, a service tailored to the preferences of each customer is not possible because of cost and time. Thus, some degree of standardization is necessary, which can be achieved through segmenting customers (Machauer & Morgner, 2001; Gough & Sozou, 2005). Hence, the study intended to investigate those characteristics of the customers, which would assist bank managers in devising different retention strategies. This segmentation attempt would help policymakers in drawing a clear line of demarcation between true and spurious loyals, so that strategies could be devised accordingly and every effort is embedded towards retaining the truly loyal customers.

The remainder of this paper reviews customer loyalty and switching behaviour and its components, viz. switching costs and barriers. Hypotheses were generated from this theoretical framework. The paper is organized around this framework, discussing customers' switching behaviours and various prominent factors directly or indirectly related to it. In order to examine the significant factors affecting switching behaviour, the instrument items were factor analysed. Further, to examine various profiles of customers belonging to different sub-groups, cluster analysis was used. This cluster analysis should help in recognizing the segment of customers to be retained, on whom cross-selling and up-selling of the services could be ensured. Further, in order to confirm the results of cluster analysis, discriminant analysis was employed. This analysis clearly delineates between the responses of the clusters formed previously. Finally, managerial implications have been given so that effective actions in the context of key determinants of customer loyalty and switching in the form of switching costs and barriers can be guaranteed.

THEORETICAL FRAMEWORK AND HYPOTHESES FORMULATION

Olsen (2002) established that there existed a positive relationship between quality and satisfaction as well as between satisfaction and loyalty. The study further observed that satisfaction played a mediating role in quality and loyalty link. Khatibi, Ismail, and Thyagarajan (2002) also traced a direct and positive impact of perceived service quality on customer satisfaction. Pollack (2009) confirmed the role of service quality as a predictor of satisfaction and loyalty. Further, his analysis revealed that customer satisfaction accounted for the largest variation in customer loyalty and was more important than service quality (Licata & Chakraborty, 2009).

Lam et al. (2004) highlighted that customer loyalty was influenced not only by customer satisfaction but also by the perceived value of the service. Again, Liu (2006) found customer value as an important factor for enhancing customer retention. Further, it was revealed that trust also had a positive effect on customer retention, but at the same time its influence was not as strong as that of satisfaction (Ranaweera & Prabhu, 2003). On the other hand, Aydin and Ozer (2005) found trust to be the most important determinant of customer loyalty among factors like switching costs, service quality, and corporate image. Yieh, Chiao, and Chiu (2007) also established a direct relationship between trust and loyalty.


Thus, the literature pertaining to relational factors reveal that better the service quality, greater shall be the satisfaction and higher shall be the customer loyalty. It indicates that if an organization is able to offer better quality services, it shall be able to gain higher satisfaction, which would ultimately result into enhanced customer loyalty. Besides quality and satisfaction, customer value also has a positive significant impact on customer loyalty, thereby implying that value added services result into customer retention through increased loyalty. Further, it is established that higher level of trust and commitment lead to increased customer loyalty. In other words, if a customer trusts a service provider, he would develop commitment, which would result into accentuated customer loyalty.

On the basis of above discussion, it is proposed that five prime relational factors are significant for developing,
building, and maintaining customer loyalty in Indian banking.

**H1a:** Higher the perceived service quality and satisfaction, higher will be the customer loyalty.

**H1b:** Higher the customer value and satisfaction, higher will be the customer loyalty.

**H1c:** Stronger the trust and commitment, stronger will be the customer loyalty.

Keaveney (1995) was the first to develop a model of customer switching behaviour for service industries in which he identified eight switching incidents, viz. pricing, inconvenience, core service failures, employee responses to service failures, attraction to competitors, ethical problems and involuntary switching plus seldom mentioned incidents. On the other hand, Gerrard and Cunningham (2004) found pricing and inconvenience as dominant factors that influenced customer switching decisions. Later, a study by DeWitt, Nguyen, and Marshall (2008) concluded that when a customer experienced good service recovery, it created a positive attitude towards service provider and increased the likelihood of future repurchase. However, many a times, consumers stay with the service organization even though they have seriously considered switching; such factors are switching barriers, which should be analysed for comprehensive understanding of consumer switching behaviour (Colgate & Lang, 2001). In this regard, Ranaweera and Prabhu (2003) revealed that switching barriers helped in retaining not only satisfied but dissatisfied customers as well. They observed that at a high level of satisfaction, switching barriers did not have a significant impact on retaining satisfied customers; but at a lower level of satisfaction, switching barriers did significantly influence even dissatisfied customers. Further, Colgate et al. (2007) affirmed that switching barriers played a major role in keeping customers tied to their current service provider in various service industries such as banking, insurance, health, etc. According to Heide and Weiss (1995), a customer will be motivated to stay in the existing relationship to economize on switching costs, such as transaction specific investment that he or she makes in the relationship. The extant literature (Kim, Park, & Jeong, 2004; Yanamandram & White, 2006) also signifies switching cost as an important category of switching barriers. These costs derive customer intentions to stay with the current service provider (Burnham, Frels, & Mahajan, 2003).

On the whole, defective pricing, employees’ poor response to service failures, and poor quality of core services appeared to be the major factors considered for switching a service provider. Beside these factors, various switching costs, viz., relational, financial, and procedural; and switching barriers, viz., alternative attractiveness, do play a significant role in predicting customers’ switching. The pertinent literature reveals that higher level of switching costs and barriers lead to weak switching intentions, primarily due to the involvement of both financial and non-financial sacrifices. The literature further supports that higher level of switching costs and barriers weakens the relationship between satisfaction and loyalty. This implies that when switching costs and barriers are high, customers do not exit the current service provider even though they may not be satisfied with the quality of services being offered; their stay with the current service provider does not determine their true loyalty. Hence, in such a situation, level of customer satisfaction does not affect customer’s true loyalty.

Based on the perusal of relevant literature, it is proposed that switching costs and barriers significantly influence switching intentions of Indian bank customers.

**H2a:** Quick and effective responses to service failures, core services up to expectations (i.e. basic banking services) and reasonable prices significantly influence switching intentions.

**H2b:** Higher the switching costs and barriers, lower will be the customers’ intentions to switch.

**H2c:** For high switching barrier group, the satisfaction-loyalty link will be weaker.

**H2d:** For low switching cost group, the satisfaction-loyalty link will be stronger.

Service switching involves replacing or exchanging the current service provider with another provider, which has a huge negative impact on the organizations by re-
ducing their customer base and market share (Dawes, 2004; Garland, 2002). Thus, minimization of customer churn is now a priority and for this service firms are adopting various schemes such as, loyalty programmes, customer relationship management, and service initiatives (Dowling & Uncles, 1997; Sharp & Sharp, 1997).

On the other hand, customer loyalty is critical to the conduct of business in today’s competitive market place and banks are no exception. Banks have, thus, embarked on different management strategies as ways to promote customer loyalty (Bahia & Nantel, 2000; Jamal & Naser, 2002). Conceptually, loyalty strategies seek to build stronger and more enduring relationships with customers and these relationships encourage customers to do something about a problem they have had with a product or service rather than quietly defecting from the brand (Duffy, 1998). Not only this, loyalty leads to positive attitudes and behaviour such as, repeat patronage and positive recommendations, which influence other actual or potential customers (Rowley & Dawes, 1999). On the whole, switching intentions are either the outcome of customer loyalty or switching costs and barriers, while loyalty is a concept that emerges from strong commitment along with other relational factors viz., quality, value, satisfaction, and trust. Thus, in order to know the effect of various relational factors and switching concepts on switching intentions, the following hypothesis is formulated:

**H3:** Higher the relational and switching factors, lower will be the customer intentions to switch, i.e. their staying intentions.

**RESEARCH METHODS**

The schedule consisting of Likert-type measures was designed to gather requisite information from the bank customers. With regard to perceived service quality, seven items based on 7-point Likert scale (ranging from completely disagree to completely agree) were taken from Zeithaml, Parasuraman, and Berry (1996), Mittal and Lasser (1998), and Aydin and Ozer (2005) while items relating to customer value were adapted from Liu (2006), Wang, Lo, and Yang (2004), and Lam et al. (2004). Customer satisfaction was measured through 20 items extracted from Capraro, Broniarczyk, and Srivastava (2003), Bennett and Rundle-Thiele (2004), and Ganesh, Arnold, and Reynolds (2000). In order to measure trust and commitment, 23 items were borrowed from Bansal, Irving, and Taylor (2004), Aydin, Ozer, and Arasil (2005), and Garbino and Johnson (1999). Similarly, items relating to customer loyalty were obtained from Lee, Lee, and Feick (2001), Ganesh, Arnold, and Reynolds (2000), and Aydin, Ozer, and Arasil (2005). Lastly, switching intentions, switching costs and switching barriers were measured through items adapted from Keaveney (1995), Gerrad and Cunningham (2004), Colgate and Lang (2001), Ganesh, Arnold, and Reynolds (2000), Burnham, Frels, and Mahajan (2003), Grace and O’Cass (2003), Kim, Park, and Jeong (2004), and Aydin, Ozer, and Arasil (2005). Though various items in the survey instrument were borrowed from the pertinent literature, their wordings were twisted to make them more context-specific.

A survey conducted among experienced private bank customers residing in Jammu city highlights that 71 percent of the respondents had JKB (Jammu and Kashmir bank) as their prime bank, followed by ICICI (10%) and HDFC (9%). This reveals that JKB is the most preferred bank among various private banks in Jammu city for transacting financial activities. The telephone directory of Jammu city (2007-08) had a population of 71,600 residents and out of these, 449 bank customers (sample size determined through an appropriate method given by Malhotra, 2007, p. 400) were selected through systematic sampling technique. The first respondent was selected purely on random basis and thereafter, every 150th telephone subscriber was contacted. These customers were contacted personally to explore their loyalty and switching intentions and perceptions regarding existence of switching costs and barriers while switching their present bank.

**RESEARCH TECHNIQUES**

The information obtained through modified survey instrument was processed and suitably analysed in order to bring out precise results with the help of appropriate statistical tools. For testing the hypotheses, correlation, multiple regression, and logistic regression were used. Validity of the scale was established through convergent and discriminant validity. In order to prove convergent validity, the factor loadings within the factors were observed. As the significant related variables loaded onto a single factor, convergent validity got established. Discriminant validity refers to the extent to which factors are uncorrelated and it has been confirmed through correlation co-efficients. As the majority of correlation co-
Efficiencies between the factors came to be less than 0.50, discriminant validity stands proved. The reliability or internal consistency of the data was judged through Cronbach’s alpha.

**Factor Analysis**

Principal component analysis (PCA) was conducted to extract a set of factors capable of capturing the main domain of 97 items in the instrument. Prior to the extraction of factors, KMO measure of sampling adequacy and Bartlett test of sphericity confirmed significant correlation among the variables, so as to warrant the application of factor analysis. Further, all the factors were checked for their reliability through Cronbach alpha values. Factors having alpha value below 0.70 were deleted (Ngobo, 2004; Fabrigar et al., 1999). Furthermore, cut-off value of 0.40 correlation coefficient was regarded as significant and considered appropriate, as the sample size of the survey was larger than 350 (Alfansi & Sargeant, 2000). Out of 97 items, 64 items having communality of less than 0.70 were deleted.

**ANALYSIS AND DISCUSSION**

In the light of mean, factor loadings, and communalities (Table 1), factor-wise analysis and discussion are as under:

**Factor 1: Service Quality**

‘Service Quality’ exhibits heavy loadings for five variables, out of which ‘reliable services’ contributes the highest (Table 1) but sampled customers’ expectations toward availing reliable services have not yet been fully met. This finding is consistent with the original work of SERVQUAL creators who found reliability as consistently the most critical dimension (Stafford, Stafford, & Wells, 1998). Further, ‘timely services’ and ‘consistent services’ are the next significant contributors (0.89). Customers are more satisfied with the ‘timely services’ (5.72), though the satisfaction level is not very high. In this context, Yavas, Benkenstein, and Stuhldrier (2004) supported ‘timeliness’ aspect of service delivery to be closely related to customers’ satisfaction, their complaints, and switching behaviour. The third important dimension of this factor is ‘consistent services’. The next important contributor towards service quality is ‘good quality services’ (0.894), followed by ‘courteous services’ (0.845). Though ‘courteous services’ obtained high factor loading, customers are not highly contented with the behaviour of the employees. Thus, customers expect a high degree of interaction with the bank’s staff, who is more sensitive to their needs and exerts to extend more personalised services (Arasli, Katircioglu, & Mehtap-Smadi, 2005).

**Factor 2: Customer Value**

‘Customer Value’ consists of three variables, out of which ‘reasonable price for services’ obtained the highest factor loading, thus revealing its significant contribution towards predicting value. Moreover, Chen, Chang, and Chang (2005) found prices to have a significant impact on customer value by lowering perceived risk rather than enhancing quality of services. Its second highest contributing dimension is ‘better economic value’. However, customers do not feel that their prime bank is providing them better economic value as compared to other banks of the same area (5.125). Lastly, ‘overall best quality’ does not contribute as strongly as other two dimensions.

**Factor 3: Customer Satisfaction**

‘Customer Satisfaction’ exhibits heavy loadings for four variables, out of which ‘overall satisfactory services’ is the most significant contributor towards customer satisfaction. Here the customers are quite satisfied, as this component obtained highest mean score as compared to other variables. Further, ‘bank meets expectations’ received second highest factor loading. The customers are, however, fairly satisfied with the way the bank is meeting their expectations. Moreover, McDougall and Levesque (2000) found fulfilment of expectation regarding core services as the significant driver of customer satisfaction. The third important dimension to predict customer satisfaction came to be ‘satisfactory handling of problems’. However, customers are only moderately satisfied with the way bank handles their complaints. Thus, there is an urgent need to handle the problems in the most effective way, as these service problems if not resolved, have a substantial impact on the customers’ attitude towards the service provider (Levesque & McDougall, 1996).

**Factor 4: Customer Trust**

This factor consists of four dimensions and out of these ‘reliable bank’ obtained highest factor loading, but customers are not very much contented with the dependability of their bank. In this regard, it can be suggested that banks should encourage honest communication and
information, shared values, brand reputation, etc. so as to increase their image as a reliable bank. Further, ‘trustworthy procedural system’ received second highest factor loading. Thus, banks should ensure effective procedural system by paying attention towards service outcomes and by constantly improving its technical quality (Wetzels, Ruyter, & Birgelen, 1998). The last significant contributor came to be ‘fair treatment’. Customers are also not much satisfied with the personal attention they get from their bank. This may be due to the fact that customer care in terms of personalized services is the minimum threshold, which is otherwise also considered essential in order to remain competitive in this challenging world.

Factor 5: Customer Commitment
This factor exhibits heavy loading for three variables. Though ‘best customer care’ obtained highest factor loading, customers do not feel committed towards their prime bank. The dimension that obtained second highest factor loading came to be ‘bank deserves loyalty’, but customers are not much involved in maintaining relationship with their bank. Lastly, ‘pleasure in being a customer’ obtained lowest factor loading and customers also do not feel much happy and delighted by being the customer of their prime bank. Although customers are not committed to their prime bank, but customer commitment is a valuable asset especially for the banking sector, as it is a significant predictor of loyalty (Delgado-Ballester & Munuera-Aleman, 2001).

Factor 6: Customer Loyalty
The factor ‘Customer Loyalty’ consists of two dimensions, viz., ‘recommendation’ and ‘continuous dealing with the bank’ and both are equally significant for predicting loyalty. Customer recommendation plays a useful role in loyalty research and recommendation or positive word-of-mouth has been linked positively to repurchase decisions as an indicator of strengthened relative attitude (Jones & Farquhar, 2003). Another dimension, i.e. ‘continuous dealing with bank’ obtained lower factor loading, thus signifying that continuous business with prime bank does not guarantee true loyalty. Further, service loyalty is determined not only by quality and customer satisfaction, but also by cost consideration that arises from present transaction and future switching possibilities (Beerli, Martin, & Quintana, 2004).

Factor 7: Switching Intentions
This factor consists of three variables, out of which ‘quick and effective responses to service failures’ is found to be a significant contributor towards predicting switching intentions. In this context, it has been found that customer service recovery expectations rise with the severity of the failure and that excellent quality recoveries are capable of reducing the negative consequences of failures. Thus, managers must identify what constitute the ‘adequate’ recovery expectations for their customers (Zeithaml, Berry, & Parasuraman, 1993; Hess, Ganesan, & Klein, 2003). The next highest contributing variable came to be ‘no denial of services’, followed by ‘core services up to expectations’. Customers have agreed that their expectations are being met by their prime bank. However, Howorth, Peel, and Wilson (2003) found ‘dissatisfaction with the service provider’ as the key factor associated with switching banks, especially in context of B2B services. This difference could be due to the reason that expectations of a business firm are much higher as compared to an individual.

Factor 8: Switching Cost
This factor contains five variables, out of which ‘non fulfilment of expectations by competitors’ and ‘switching results into bad services from elsewhere’ obtained equal factor loadings. However, customers do not agree with any one of these variables, which may be due to the fact that a bank incapable of providing quality service will lose its customers to competitors. Therefore, as switching cost falls for customers, they wish to change service providers and as differentiation between banks is enhanced, bank shall try to lock customers for a longer period (Aldlaigan & Buttle, 2005). Further, ‘good public image’ received high factor loading. Thus, image plays a significant role in developing relational switching cost and sampled customers were found to be quite satisfied with the image of their prime bank. This finding has been supported by Chen and Ching (2007), whereby image is found to be a factor that moderates the effect of customer service and service usage on customer loyalty. The next significant contributor came to be ‘complete support to prime bank’. In this regard, Palmer (2000) found that buyers’ willingness to cooperate with the seller is influenced by the image of the seller. On the contrary, in this study, image is not found to be an important element for building up customers’ willingness to support their prime bank.
Factor 9: Switching Barriers

The last factor consists of five dimensions out of which ‘bank offers best deal’ contributes highest towards predicting the switching barriers. However, customers are moderately satisfied with their bank’s dealings. Colgate and Lang (2001) revealed ‘apathy’ as largest switching barrier with ‘too much botheration’ being the significant reason within the apathy factor. The next important contributor came to be ‘well acquainted staff’, followed by ‘due treatment from bank’. The customers are more satisfied with the treatment they get from their prime bank as compared to the acquaintance with bank staff. Thus, there is a need to place greater emphasis on the management of relationships with their customers across the key areas (Keaveney, 1995). Lastly, ‘satisfactory resolution of complaints’ and ‘bank understands customer needs’ obtained lowest factor loading. Thus, service recovery does not seem to be a major switching barrier, which could be due to three reasons, viz., customers may not have a reason to complain; not every customer files complaint when he experiences service failure; and even when they do complain, they may not necessarily receive a satisfactory resolution (Colgate & Lang, 2001).

Cluster Analysis

After the successful conduct of factor analysis, it was then possible to identify whether bundle of benefits might be sought by specific customer segments. In this regard, McDougall and Levesque (1994) conducted a study of benefit segmentation in using service quality dimensions of retail banking and through cluster analysis they identified two customer segments, viz., a performance segment and a convenience segment. The results of cluster analysis provide useful guidelines to the marketers and policymakers while framing policies and strategies for targeting and segmenting both new as well as existing customers. Thus, cluster analysis has been performed to group respondents on the basis of various factors of customer loyalty and switching behaviour that were extracted through factor analysis (Young & Denize, 1995). Hierarchical cluster analysis (using Ward’s method) was applied so as to find the number of clusters that existed in the data with the help of agglomeration schedule. By analysing the agglomeration coefficient, it became evident that there existed two cluster solution in the data. Given the number of cases in the full dataset, k-mean cluster as analysis was then applied to determine the solution for two clusters. k-mean clustering procedure gives more stable clusters as it is an interactive procedure compared to single pass hierarchical procedure (Durkin, 2004). This gives cluster membership, which reveals that cluster1 contains 163 cases and cluster2 includes 286 cases. “Final cluster centres” give the mean value of each factor of the two clusters.

Cluster 1: Spurious Stayers

Members of this segment (36.3%) are not very highly satisfied with the quality of services and customer value; thus their overall customer satisfaction level is also not very high. They do trust their prime bank though the level is not so high. Further, they are not very much committed to their bank and thus, don’t feel any kind of switching cost. Thus, their loyalty is also comparatively low. However, their intentions to switch are low, which may be due to the presence of some kind of switching barriers. Hence, it can be concluded that respondents of this cluster are comparatively lesser satisfied and loyal and do not feel any commitment towards their prime bank. Thus, these respondents have been labelled as ‘spurious stayers’.

Cluster 2: Loyal Stayers

Respondents of this segment (63.7%) are highly contented with the quality of services and repose high trust on their prime bank, which has led to enhanced overall satisfaction level. Moreover, they are averagely satisfied with the ‘customer value’ of their bank. However, customers of this cluster do assume the presence of high switching barriers. Thus, it can be inferred that high satisfaction as well as switching barriers are the two factors due to which customers have low switching intentions. Furthermore, respondents are quite committed and loyal as compared to the cluster1 respondents. As these customers are highly satisfied, more committed and loyal as compared to respondents of cluster1, therefore they have been designated as “loyal stayers”.

Further, discriminant analysis was performed in combination to cluster analysis, where cluster analysis solution became the dependent variable in a discriminant analysis and all the factors as independent variables (Hair, Bush, & Ortinau, 2006). The basic purpose of discriminant analysis is to examine whether significant differences exist among the groups, in terms of predictor variables. It can also be applied to evaluate the accuracy of classification (Malhotra, 2007). In the analysis, the dis-
criminant function was found to be significant (chi-square= 568.076; df= 9; p=0.000; Wilk’s lamda=0.277). The results indicate that out of nine factors, eight are helpful in predicting the group membership as these received the value of function column equal to 0.30 or above. Higher value indicates the higher contribution; thus commitment is found to be the strongest variable (0.79), followed by loyalty (0.71), service quality (0.69), switching intentions (0.69), satisfaction (0.69), switching barriers (0.64), trust (0.51), and lastly, switching cost (0.41). Finally, it supports the results of cluster analysis, as mean scores of group2 are higher than the means of group1.

**RESEARCH FINDINGS**

All the hypotheses were tested using multiple regression and correlation analysis.

A positive and direct relationship between service quality and satisfaction was assumed on the one hand and loyalty on the other. For this purpose, the model for customer loyalty was tested and found to be significant, as indicated by the overall F-statistics (p<0.000). Results reveal that both satisfaction (b=0.815, p<0.001) and service quality (b=0.378, p<0.001) affect loyalty positively and significantly. Thus, Hypothesis 1a stands accepted.

A direct relationship between customer value and satisfaction was expected on the one hand and loyalty on the other. This relationship in the form of model was tested using regression analysis. Results reveal that satisfaction affects loyalty significantly (b=0.982, p<0.001). Moreover, customer value also affects loyalty significantly (b=0.219, p=0.001). Thus, Hypothesis 1b is accepted.

The last hypothesis of the first set was tested using regression analysis. The regression model explained 56.6 percent variation in the dependent variable, i.e. customer loyalty. Regression equation reveals that commitment (b=0.682, p<0.001) and trust (b=0.396, p<0.001) have a positive and significant impact on the customer loyalty and thus, Hypothesis 1c is accepted.

A positive direct relationship was hypothesized between ‘customer switching intentions’ on the one side and ‘quick and effective responses’, ‘core services up to expectations’ and ‘reasonable charges’ on the other. For this purpose the model for customer switching intentions was tested and found to be significant, as indicated by the overall ‘F’ statistics (p<0.000). The regression model explains 74 percent of the variation in the dependent variable (switching intentions), as indicated by the adjusted R² value. All the three variables have a significant impact on customer switching intentions. These include ‘quick and effective responses to failure’ (b=0.391, p<0.001), ‘core services up to expectations’ (b=0.331, p<0.001) and ‘reasonable charges’ (b=0.231, p<0.001). Thus, hypothesis 2a is accepted.

A direct relationship between switching cost and barriers was expected on the one hand and switching intentions on the other. Again a model was tested and found to be significant. Result reveals that switching barriers have a clear direct and strong influence on customer switching intentions (b=0.812) while switching cost has been found to have weak impact on customer switching intentions (b=0.055). Thus, Hypothesis 2b is partially accepted.

To test the role of high switching barriers in the satisfaction-loyalty link, simple bi-variate correlation was worked out between satisfaction and loyalty for the high switching barriers group. The result reveals strong association between satisfaction and loyalty, as the value of ‘r’ is above 0.50. Thus, Hypothesis 2c stands rejected.

To test the last hypothesis of the second set, again simple bi-variate correlation was worked out between satisfaction and loyalty for lower switching cost group. The result clearly indicates a positive and significant relation-ship between satisfaction and loyalty. But this relationship is very strong as the value of ‘r’ is above 0.50. Thus, Hypothesis 2d stands accepted.

Finally, in order to test the third hypothesis, logistic regression technique (Lopez, Redondo, & Olivan, 2006) was employed which allowed us to explore the influence of a set of explanatory variables on the probability that a customer switching can occur. The model takes the following form:

\[
\text{LR equation} = \frac{1}{1 + e^{(-3.819 + 0.673 \text{customer staying intentions} + 0.395 \text{switching cost})}}
\]

Among variables under study, customer loyalty, followed by switching costs predict customers intention to stay. This leads to the acceptance of Hypothesis 3.

**DISCUSSION AND IMPLICATIONS**

Although research on customer loyalty and retention has led to a greater understanding about the firm-customer
relationships, it is also true that research on the dissolution and termination of relationships has begun to create its own field of interest (Bansal & Taylor, 1999; Keaveney, 1995). In this stream, the present work aims at covering all those factors that directly or indirectly lead to customer switching or compel customers to stay with a particular organization.

The data analysis indicates that the majority of respondents have no intentions to switch and their staying intentions can best be predicted by customer loyalty, followed by switching costs. This result is in contrary to the findings of the study undertaken by Santonen (2007) where overall service loyalty was found to be barely related to customer defection. However, Yanamandram and White (2006) found switching costs as the main determinant that forced a customer to stay with the service provider even if he was dissatisfied. But at the same time it was found that all stayers were not true loyals, as Dick and Basu (1994) asserted that link between satisfaction and loyalty was not straightforward.

Hence, from the analysis, it becomes evident that the difference between ‘loyal stayers’ and ‘spurious stayers’ emerged mainly due to the difference of opinions on perceived service quality, satisfaction, commitment, loyalty, and switching costs. ‘Loyal stayers’ do feel the presence of some kind of switching costs. Further, they are more committed, highly satisfied, and assume the existence of switching costs and barriers while ‘spurious stayers’ are not committed, averagely satisfied, do feel some kind of switching barriers but do not believe in the existence of switching costs. Therefore, service quality, satisfaction, commitment, and switching costs significantly affect the switching intentions of the bank customers.

The contribution of this paper is manifold as it provides a number of practical implications for bank managers. These managerial implications can be broadly classified under two categories, viz. increasing customer retention through relational factors and decreasing customer exit through switching factors.

The present work is an empirical contribution for the assessment of the relationship between commitment and loyalty. Commitment is essential for developing loyalty among their customers and it can be promoted by implementing and demanding higher standards of conduct from the bank employees. Moreover, financial entities should compose offers that provide value to their loyal customers in a sustained way and maintain them over time in order to generate a competitive advantage. There are various fields that can be worked on, such as quality of service offered, sacrifices made by the customers, and some emotional and social aspects in order to retain loyal stayers. Due to the challenging business environment in which banking sector operates, bank management ought to satisfy its customers, which can be implemented only when customers’ needs are known. This can be achieved through a meaningful customer feedback on a continuous basis. Hence, every bank should have a separate R&D department, which can pursue market surveys on continual basis and further, banks should pay special attention to the proper functioning of R&D department in order to obtain information regarding two segments of their customers, viz. loyal stayers and spurious stayers.

There is no sector within the marketplace that does not rely upon relationships. Managers are cautioned not to assume that loyalty programmes automatically lead to customer loyalty. Thus, in order to gain long-term benefits from their relationship marketing efforts, managers must consider delivering both emotional and economic benefits to the customer. Service providers offering loyalty reward programmes devoid of emotional benefits run the risk of losing their customers in the long run. Under such circumstance, banks should develop wide-ranging relationships with their customers so as to make the switching process more complex. This will help in retaining the spurious stayers even if they experience a single non-trivial problem with their bank. Therefore, there is a need to focus on CRM strategies (Gerrard & Cunningham, 2004). Moreover, in order to build profitable relationships, firms should not attempt to attract all customers in the market indiscriminately, but focus on those who are more valuable to the company. As our research shows, it is possible to accomplish this objective by differentiating between spurious and loyal stayers on the basis of customer segmentation.

Further, successful service recovery is the ultimate solution to all the service problems, as it can restore customers to a satisfied state or make them delighted. Thus, bank managers need to concentrate their efforts on the core service delivery and recovery to seek a competitive advantage. Moreover, switching cost has been considered as an efficient managerial tool to develop loyalty explicitly among spurious stayers, reduce price elasticity, and increase profitability (Burnham, Frels, &
Mahajan, 2003). But many times this tool is used in an inappropriate manner and thus banks should increase switching costs in a way that will add value to their customers. This can be done by helping customers learn how to better use the services, by identifying unique features offered, by offering valuable bonus points, or by encouraging customers in a more meaningful relationships.

FUTURE RESEARCH

Although the present research makes a contribution to the knowledge in this area, several limitations and future research opportunities deserve mention. First, findings of the research should be comprehended with caution, as these findings are confined to the banking sector in Jammu city, thus further research is needed to validate and generalize these results to other service industries, as switching and loyalty determinants are industry-specific.

Moreover, Dick and Basu (1994) conceptualized customer loyalty as the strength of the relationship between customer’s relative attitude towards an entity and repeat patronage, i.e. behaviour. Thus, there is a need to work out the effect of service quality, perceived switching cost, trust and other possible situational factors on both behavioural loyalty and attitudinal loyalty, as this study is limited to only attitudinal loyalty.

Table 1: Results of Factor Analysis

<table>
<thead>
<tr>
<th>Factors</th>
<th>Mean</th>
<th>SD</th>
<th>FL</th>
<th>Com</th>
<th>VE</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>F1: Service Quality</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Reliable service</td>
<td>5.690</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Timely service</td>
<td>5.722</td>
<td>0.707</td>
<td>0.930</td>
<td>0.865</td>
<td></td>
<td></td>
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<tr>
<td>Consistent service</td>
<td>5.693</td>
<td>0.746</td>
<td>0.908</td>
<td>0.842</td>
<td></td>
<td></td>
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<tr>
<td>Good quality service</td>
<td>5.719</td>
<td>0.882</td>
<td>0.894</td>
<td>0.799</td>
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<tr>
<td>Courteous service</td>
<td>5.617</td>
<td>0.780</td>
<td>0.845</td>
<td>0.714</td>
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<td></td>
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<tr>
<td><strong>F2: Customer Value</strong></td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>Reasonable price for services</td>
<td>5.149</td>
<td>0.838</td>
<td>0.959</td>
<td>0.921</td>
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<tr>
<td>Better economic value</td>
<td>5.125</td>
<td>0.809</td>
<td>0.958</td>
<td>0.919</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall best value</td>
<td>5.25</td>
<td>0.711</td>
<td>0.910</td>
<td>0.828</td>
<td></td>
<td></td>
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<tr>
<td><strong>F3: Customer Trust</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Reliable bank</td>
<td>5.713</td>
<td>0.710</td>
<td>0.886</td>
<td>0.776</td>
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<tr>
<td>Trustworthy procedural system</td>
<td>5.786</td>
<td>0.589</td>
<td>0.864</td>
<td>0.747</td>
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<tr>
<td>Fair treatment</td>
<td>5.88</td>
<td>0.609</td>
<td>0.859</td>
<td>0.738</td>
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<td></td>
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<tr>
<td><strong>F4: Commitment</strong></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Best customer care</td>
<td>4.67</td>
<td>1.36</td>
<td>0.870</td>
<td>0.757</td>
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<tr>
<td>Bank deserve loyalty</td>
<td>5.14</td>
<td>1.18</td>
<td>0.865</td>
<td>0.748</td>
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<tr>
<td>Pleasure in being a customer of this bank</td>
<td>4.33</td>
<td>1.50</td>
<td>0.853</td>
<td>0.728</td>
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<td><strong>F5: Satisfaction</strong></td>
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<tr>
<td>Overall satisfactory services</td>
<td>5.726</td>
<td>0.870</td>
<td>0.942</td>
<td>0.887</td>
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<tr>
<td>Bank meets expectations</td>
<td>5.659</td>
<td>0.930</td>
<td>0.935</td>
<td>0.874</td>
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<tr>
<td>Satisfactory handling of problems</td>
<td>5.594</td>
<td>0.695</td>
<td>0.891</td>
<td>0.794</td>
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<tr>
<td>Wise decision to operate account</td>
<td>5.467</td>
<td>1.258</td>
<td>0.864</td>
<td>0.747</td>
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<tr>
<td><strong>F6: Customer Loyalty</strong></td>
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<tr>
<td>Recommendation</td>
<td>4.574</td>
<td>1.76</td>
<td>0.871</td>
<td>0.758</td>
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<tr>
<td>Continuous dealing with bank</td>
<td>5.276</td>
<td>1.16</td>
<td>0.719</td>
<td>0.780</td>
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<td></td>
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<tr>
<td><strong>F7: Switching Intentions</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Quick and effective responses to service failures</td>
<td>5.548</td>
<td>0.709</td>
<td>0.922</td>
<td>0.850</td>
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<tr>
<td>No denial of services</td>
<td>5.566</td>
<td>0.685</td>
<td>0.901</td>
<td>0.811</td>
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<td></td>
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<tr>
<td>Core services up to expectations</td>
<td>5.60</td>
<td>0.858</td>
<td>0.884</td>
<td>0.781</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Factors</th>
<th>Mean</th>
<th>SD</th>
<th>FL</th>
<th>Com</th>
<th>VE</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>F8: Switching Cost</td>
<td>3.423</td>
<td></td>
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<tr>
<td>Non-fulfilment of expectations by competitors</td>
<td>2.79</td>
<td>1.59</td>
<td>0.963</td>
<td>0.927</td>
<td>92.704</td>
<td>0.757</td>
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<td>Switching results into bad services from elsewhere</td>
<td>2.824</td>
<td>1.54</td>
<td>0.963</td>
<td>0.927</td>
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<td>Good public image</td>
<td>5.848</td>
<td>0.64</td>
<td>0.795</td>
<td>0.710</td>
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<tr>
<td>Complete support to prime bank</td>
<td>3.194</td>
<td>1.56</td>
<td>0.758</td>
<td>0.723</td>
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<tr>
<td>Feelings of being comfortable with employees</td>
<td>2.45</td>
<td>1.40</td>
<td>0.733</td>
<td>0.711</td>
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<td>F9: Switching Barriers</td>
<td>5.459</td>
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<tr>
<td>Bank offers best deal</td>
<td>5.49</td>
<td>0.94</td>
<td>0.864</td>
<td>0.746</td>
<td>70.681</td>
<td>0.893</td>
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<tr>
<td>Well acquainted staff</td>
<td>5.405</td>
<td>0.79</td>
<td>0.841</td>
<td>0.708</td>
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<tr>
<td>Due treatment from bank</td>
<td>5.66</td>
<td>0.655</td>
<td>0.834</td>
<td>0.696</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfactory resolution of complaints</td>
<td>5.48</td>
<td>0.665</td>
<td>0.832</td>
<td>0.692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank understands customer need</td>
<td>5.26</td>
<td>0.914</td>
<td>0.832</td>
<td>0.692</td>
<td></td>
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<tr>
<td>Grand Mean</td>
<td>4.833</td>
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</tr>
</tbody>
</table>

Note: SD-Standard Deviation, FL-Factor Loading, Com-Communalities and VE-Variance Explained

REFERENCES


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