

# AN EXPLORATION OF CUSTOMERS' SWITCHING BEHAVIOR IN ISLAMIC BANKING INDUSTRY

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## Abstract

The existence of the switching behavior among Islamic bank customers may affect to the survival of the Islamic banks of the country. Switching behavior is mostly as an outcome of the negative service experience that may be related to several factors. The purpose of the study is to provide an insight of the drivers that lead to a bank customer switching behavior from one Islamic bank to another bank. The study employed survey method through questionnaire instrument and distributed to Islamic banking customers in several areas of Banten Province, Indonesia. The result of statistical analysis shows that customer satisfaction, service quality, shariah compliance, prices and involuntary switching have their significant effect on customers' switching behavior in the Islamic banks. However, service failure and advertisement are not statistically significant in driving bank switching. Therefore, the Islamic bank manager should shape their business model around customers' needs and focuses operational improvements on customers' most valued interactions.

*Keywords: Switching behavior, Customer satisfaction, Service quality, Shariah compliance, Prices*

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## I. INTRODUCTION

Islamic banking sector as the pillar of Islamic financial system has gained unprecedented recognition from both Muslim and non-Muslim as well as during the last three decades. The industry is experiencing a rapid acceleration worldwide. According to IFSB Annual Report in 2015, total assets held by full-fledge Islamic banks, subsidiaries, and windows are amounting to approximately USD 1.48 trillion in 2014. Its assets rose by 20 percent annually. As a consequence, the industry now comprises of larger number of players, resulting in stiffer competition not only among the Islamic banking institutions, but also from the conventional banks that offering Islamic banking products. The integration of the Islamic financial institutions into the global financial market has also resulted in competition from the international players (Abduh, Kassim, & Dahari, 2013). In the very challenging environment, it is vital for the Islamic banks need to improve their services and expand the customer base by attracting new customers as well as maintaining the existing ones. As competition intensifies, customer's satisfaction on services quality delivered becomes highly vital, thus becoming the main reference for the customer whether to stay on or to switch to another bank. When banks start to offer more or less similar products and services, it is the customers' satisfaction that can influence the performance of an Islamic bank and determines its competitiveness and success (Naser, Jamal, & Al-Khatib, 1999).

Islamic banks as depository institution rely on the deposits received from their depositors (Rama & Kassim, 2013). Their final decision either to withdraw or not depends on their satisfaction towards Islamic banking (Altwijry & Abduh, 2013; Amin, *et al.*, 2011). Customer satisfaction is often associated with the measurement of service quality (Anderson & Sullivan, 1993; Cronin & Taylor, 1992; Taylor & Baker, 1994). For example, service quality appears to be linked to customer satisfaction in Islamic banking industry (Ali *et al.*, 2011; Estiri, Hosseini, Yazdani, & Nejad, 2011; Naser *et al.*, 1999). Satisfied customers are more likely to engage in a long-term relationship with their bank. Otherwise, unsatisfied customers tend to stop of financial services provider, withdraw their deposits (Abduh, 2014a), switch to another bank (Altwijry & Abduh, 2013; Amin, Isa, & Fontaine, 2011), create negative word of mouth and

convey their negative impression to other customers. Therefore, it is important for the Islamic banks to understand the underlying factors influence their customers to stay or terminate their relation to the Islamic banks. Those issues were covered by earlier studies under switching behavior framework.

## **II. LITERATURE REVIEW ON SWITCHING BEHAVIOR**

### **2.1 Bank Switching Behavior**

Switching behavior is similar term with customer defection (Garland, 2002) or exit (Stewart, 1998). Customer defection refers to customer forsaking one service provider for another, while customer exit is to denote the customer's ending of the relationship. Customer defection can be total or partial (Colgate & Hedge, 2001; Stewart, 1998). Total defection is usually easy to detect, since customers close all their accounts and switch entire business to another service provider. While partial defection is determined as a loss of any portion of a customer's business and is significantly more difficult to detect than total defection (Kaur, Sharma, & Mahajan, 2012). According to Bolton and Bronkhorst (1995) switching behavior imitates the decision that a customer to stop purchasing/ business with a particular service or patronizing the service completely.

Service switching is a growing research area in marketing. Keaveney (1995) developed one of the first generalized models to investigate several factors that influenced customers to switch service providers. Stewart (1998), in a review of what she called the 'exit process in banking', mentioned four types of switching incidents that related to how customers were treated: facilities, provision of information and confidentiality, and services issues. Gerrard and Cunningham (2004) also identified seven incidents they considered to be important in gaining an understanding of switching between banks. These incidents were service failure, pricing, inconvenience, reputation, promotions, involuntary, and recommendations of others. Clemes, Gan and Zhang (2010) identified eight factors contributing to customer switching behavior in Chinese retail banking industry, namely: price, reputation, service

quality, effective advertising competition, involuntary switching, distance, switching costs and demographic characteristics.

In the case of Islamic banking, the term switching and withdrawal behavior are used interchangeably to represent switching and withdrawal incidents among customers or depositors towards Islamic banking services (Abduh *et al.*, 2014b). Studies conducted by Abduh, Duasa and Omar (2011), Haron and Azmi (2008), Ismal (2011), Kasri and Kassim (2009), Musri and Rama (2015) and Rama and Kassim (2013) utilized econometric models to cover relationship between fluctuation of total deposit in Islamic banking with certain macroeconomic and industry specific variables. The probability of deposit withdrawal based on the influence of total amount of incomes from operational financing (Ismal, 2011), conventional interest rate (Ismal, 2011; Kasri & Kassim, 2009; Musri & Rama, 2015; Rama & Kassim, 2013), total deposits in Islamic banks (Abduh, Omar, & Duasa, 2011; Haron & Azmi, 2008; Ismal, 2011; Rama & Kassim, 2013), stock prices (Haron & Azmi, 2008; Musri & Rama, 2015; Rama & Kassim, 2013), number of Islamic bank's branches (Kasri & Kassim, 2009; Rama & Kassim, 2013), inflation (Abduh, Omar, & Duasa, 2011; Haron & Azmi, 2008; Musri & Rama, 2015; Rama & Kassim, 2013), rate of profit (Abduh, Omar, & Duasa, 2011; Kasri & Kassim, 2009; Musri & Rama, 2015; Rama & Kassim, 2013), money supply (Haron & Azmi, 2008), economic growth (Abduh, Omar, & Duasa, 2011; Haron & Azmi, 2008; Kasri & Kassim, 2009; Musri & Rama, 2015; Rama & Kassim, 2013) and economic crisis (Abduh, Omar, & Duasa, 2011). It seems that depositors' withdrawal is much influenced by macroeconomics and internal banking performances. However, earlier studies mentioned on withdrawal behavior in Islamic banks had neglected the role of the customer as the main factor in banking selection (Abduh, 2014b). The customer's final decision either to withdraw or not plays important role on the fluctuation of total deposits Islamic banks.

Customers will withdraw or switch to other banks that depend on their satisfaction towards several type of service dimension. Suryani and Chaniago (2011) classified five factors that underlying customer not switch from Islamic banking. Those factors are the way of relationship approach to customers, compliance to Islamic principles, service recovery, switching cost and risk perceived

factors. Amin *et al.* (2011) and Mohsan, Nawaz, Khan, Shaukat and Aslam (2011) interrelated between customer satisfaction and customer loyalty and its impact on the customer intention to switch from Islamic banks. Although, service quality has impact on customer satisfaction, it cannot assure the customer loyalty in banking sector in Iran (Estiri *et al.*, 2011). Using structural equation model, Hashim and Kadir (2010) examined the impact of corporate image, customer perceived value and relationship quality on switching intention in Malaysia Islamic banks. In addition, Abduh *et al.* (2011) introduced three main reasons, namely shariah non-compliance, lower rate of return and financial crisis that may lead to depositors' withdrawal behavior employing a theory of reasoned action.

## **2.2 Drivers of Bank Switching Behavior and Hypothesized Relationships**

Earlier literature provided factors that contributed to the switching behavior in the banking industry. Bank switching is mostly an outcome of multiple incidents, not just single one unlike other service industries (Vyas & Raitani, 2014). The following section identifies and discusses the drivers that are proposed to impact on switching behavior in Indonesian Islamic bank.

### **2.2.1 Service Quality Dimension**

Traditionally, service quality has been defined as the difference between customer expectations of service to be received and perceptions of the service actually received. For example, Parasuraman, Zeithaml and Berry (1988) defined perceived quality as the degree of discrepancy between customers' normative expectations for the service and their perceptions of service performance. In the context of banking service, Bahia and Nantel (2000) noted that perceived service quality as the result from difference between customers' perceptions for the service offered by the bank (received service) and their expectations from the bank that provided such services (expected services).

Service quality has become an increasing important factor for success and survival in the banking industry. Many banks have employed the quality services as a sustainable competitive advantage because products offered by most banks are almost

identical and are duplicated (Clemes *et al.*, 2010). Parasuraman, Zethaml, and Berry (known as PZB) (Parasuraman *et al.*, 1985; 1988; 1994; Parasuraman, Berry, & Zeithaml, 1991) have developed a multidimensional customer service quality measure, known as SERVQUAL. Parasuraman *et al.* (1988) found that five dimensions served as the foundation for all service quality relationships: reliability, assurance, tangibles, responsive-ness, and empathy.

Ennew and Binks (1996), in a study of United Kingdom banks, identified three banking service quality: knowledge and advice offered, personalization in the service delivery, and general product characteristics. Karatepe, Yavas and Babakus (2005) used multi-dimensional approach to measure service quality of banks in Northern Cyprus and identified four-dimensional scale: service environment, interaction quality, empathy and reliability.

Service quality plays an important role in supporting business development as service quality has favorable impact on customer satisfaction, repurchase behavior, and business profitability. Unfavorable service quality is one of the determinants of switching behavioral intentions (Chakravarty, Feinberg, & Rhee, 2004; Clemes *et al.*, 2010; Colgate & Hedge, 2001; Gerrard & Cunningham, 2004; Keaveney, 1995; Manrai & Manrai, 2007; Mavri & Ioannou, 2008; Vyas & Raitani, 2014). A high-level of service quality is essential in order to prevent banking customer from switching (Clemes, Gan, & Zheng, 2007). High service quality is crucial for customer retention. Vyas and Raitani (2014) stated that drivers of switching behavior do not work in isolation; it is an outcome of negative service experience. Clemes *et al.* (2010) used a logistic regression and identified that service quality was an important factor that influenced the marginal probability of customers' bank switching behavior in Chinese retail banking industry. Mavri and Ioannou (2008) investigated the church behavior of bank customers in Greek market and found that the quality of the offered banking products and services in combination with the bank's brand name have a positive effect in the decrease of switching behavior.

In the context of Islamic banking, Awan, Bukhari and Iqbal (2011) documented that most of the customers value product features and quality of service as major factors for making selection of Islamic banks. Poor service quality is one of critical factors in

determining switching action among Islamic banking customers (see Hashim & Kadir, 2010). Hashim and Kadir (2010) employed structural equation modeling analysis approach to investigate the effect of corporate image, customer perceived value, relationship quality and switching intention among Islamic banking customers in Malaysia. The study concluded that customers who are highly satisfied with service quality and highly committed to their service providers will not switch or seek other service providers.

Therefore, the following hypothesis is proposed:

H1 = there is a negative relationship between providing good service quality and customers' switching behavior in Islamic banks.

### **2.2.2 Advertisement and Promotion Dimension**

Advertisement refers to activities undertaken to increase sales or enhance the image of a service, firm or business and the primary purpose of advertising is to inform the potential customer of the characteristics of products or services (Cengiz, Ayyildiz, & Er, 2007). Further-more, advertising can affect customers' behavior as it may provide information to guide customers' purchasing decision. According to Hite and Fraser (1988), professional services advertising including bank advertising can change customers' attitudes and perceptions towards the service provided.

Advertising provides customers with more opportunities for their purchasing choices which in turns could contribute to customers switching. An effective advertising plays a significant role in determining customers' switching behavior (Clemes *et al.*, 2010; Vyas & Raitani, 2014; Zhang, 2009). Cengiz *et al.* (2007) examined the bank customers' behavior in Turkey and found that efficient advertising may enhance a bank's customer loyalty and help retain customers. Clemes *et al.* (2010) identified switching behavior in the Chinese retail banking industry and revealed that advertising competition has a negative influence in customers' switching behavior. The study suggested that managers should develop effective advertising strategies that enhance the communication channels between customers and their bank and encourage new customers from other bank. Once customers understand the offerings and

processes of their current bank, the probability of switching to an alternative bank is reduced.

Therefore, the following hypothesis is proposed:

H2 = there is a negative relationship between an affective advertisement and customers' switching behavior in Islamic banks.

### 2.2.3 Involuntary Switching Dimension

According to Roos (1999), switching behavior is caused not only by distinct decision, but also by involuntary factors not related to the distinct decision. East, Lomax and Narain (2001) defined involuntary switching as an unwilling behavior by customers. Factors which uncontrollable for businesses of customers will enforce customers to switch called involuntary switching (Zhang, 2009). Keaveney (1995) describes the factors beyond the control of either customers or the service providers as involuntary switching factors. Customers may switch unintentionally, upon moving house, changing job, or retail branches being closed in their area of residence (Clemes *et al.*, 2010).

Many earlier studies have proved that involuntary switching is one of the contributing factors encouraging customers to switch banks (Anjun, Ghouri, & Malik, 2011; Clemes *et al.*, 2010; Keaveney, 1995; Vyas & Raitani, 2014). Vyas and Raitani (2014) noted that involuntary switching factors affect customers switching banks. Ganesh, Arnold and Reynolds (2000) revealed that involuntary or unavoidable switching represents the most common switching behavior. Anjun *et al.* (2011) documented that distance being most important factor and involuntary switching being least important factor for switching among Indian private banking customers. A bank may provide a perfect service and meet their customers' requirements. However, the bank can still lose customers due to reasons beyond the control of either party (Clemes *et al.*, 2010). Some involuntary switching may be beyond the control of the service provider. However, assessing the significance of involuntary switching as a factor determining switching action among banking behavior is still valuable strategic information for bank management.



In the context of Islamic banking service, switching involuntary factor has not been identified by any earlier researcher as one of the factors determining switching incident among customers. Thus, this study contributes to include switching involuntary factor as among factors that may affect customer switching in Islamic banks.

Therefore, the following hypothesis is proposed:

H3 = involuntary switching affects customers' switching behavior in Islamic banks.

#### **2.2.4 Shariah Compliance Dimension**

Many Islamic banking literatures assert that although Islamic banks perform mostly similar function to that of conventional banks, their approach is distinctly different (Iqbal & Mirakhor, 2007; Warde, 2000). The Islamic banks are bounded to some basic principles outlined in the Holy Quran (Rama, 2015c). The Islamic banking transactions must be free from interest (*riba*), and contractual uncertainty (*gharar* and *maysir*), adherence to risk and profit-sharing, promoting of halal investment that enhances society and must be asset-based (Rama & Kassim, 2013).

The success of any Islamic banking system in any country depends largely on the belief of the stakeholders that all components of the system must comply with shariah principles and rules (Hasan, 2010). The shariah compliance is the backbone of the Islamic banking and finance (Rama, 2015b). It gives legitimacy to practice of Islamic banking and finance (Rama, 2015a). The failure of an Islamic bank to comply with shariah principles and rules may result in shariah risk (shariah non-compliance risk). This type of risk may lead to credit risk, reputational risk, fund withdrawal, financial losses, bank failure, and bank runs (Ginena, 2014).

Rama and Kassim (2013) classified Islamic banking depositors or customers based on their motives patronizing Islamic banks into: religious and return based customers. Depositors will increase their deposits only when the rate of return increases. Otherwise, when the rate of return decreases, there will be a deposit flight from the Islamic banks to the conventional banks (Kasri & Kassim, 2009; Rama & Kassim, 2013; Zainol & Kassim, 2010).

Commitment of the Islamic banks to the shariah compliance is crucial for maintaining their depositors or customers particularly for those are religious motive based customers. Ahmed (2003) identified that rumors regarding poor performance of the banks, issues related to violation of shariah procedures and involvement in interest based income as factors influencing withdrawal behavior of Islamic bank's customer. Abduh *et al.* (2013) using logistic regression to evaluate factors influence the switching behavior in Malaysia Islamic banks revealed that Islamic bank customers tend to switch due to shariah compliance issues. Suryani and Chaniago (2011) suggested that compliance to Islamic principles is considered to be an important for the customers as it is one of important switching barrier factors. Thus, shariah compliance is unique dimension which only exists in the Islamic banking system that may affect to customer's switching behavior. Therefore, the study includes shariah compliance dimension as among factor may lead to switching behavior among Islamic bank's customers.

Therefore, the following hypothesis is proposed:

H4 = there is a negative relationship between shariah compliance and customers' switching behavior in Islamic banks.

### 2.2.5 Prices Dimension

From the customer's perspective, price is what is given up or sacrificed to obtain certain kinds of products or services (Zeithaml, 1988). The components of prices are objective price, perceived non-monetary price, and sacrifice. In the context of banking, pricing has additional components. Banks charge not only fees for the services but also impose interest charges on loans and pay certain types of accounts (Clemes *et al.*, 2007). Price includes fee implementation, bank charges, and interest charged and paid (Gerrard & Cunningham, 2004). According to Keaveney (1995), the pricing category included all critical switching behavior that involved prices, rates, fees, charges, surcharges, service charges, penalties, price deals, coupons, or price promotion. Thus, price in banking service has a wider implication than in several other services.

Gerrard and Cunningham (2004) identified that pricing was being more influential in switching behavior among bank customers rather than service failure and inconvenience. Colgate and Hedge (2001) investigated bank customers' switching behavior in Australia and New Zealand and found that price as the most important switching determinant, followed by service failures and denial of services.

Customers sometimes are concerned with on the fairness of price, especially on price increase and any price increases, and that they dislike and are often unwilling to pay a price that perceived as unfair. Negative customer reactions to perceived unfair prices can result in customer boycotts (Campbell, 1999) and switching actions (Clemes *et al.*, 2010). Unfavorable price perceptions may result in negative effect, such as encouraging customers to switch to another bank that provides better price options (Clemes *et al.*, 2010; Gerrard & Cunningham, 2004). In the context of Islamic banking, higher cost of service imposed to the customers may lead to switching action (Altwijry & Abduh, 2013).

Therefore, the following hypothesis is proposed:

H5 = there is a positive relationship between an unfavorable perception of price and customers' switching behavior in Islamic banks.

## **2.2.6 Customer Satisfaction Dimension**

Many researchers have provided different definitions of customer satisfaction. Aydin and Ozer (2005) considered cumulative customer satisfaction is an overall evaluation based on the total purchase and consumption experience with a product or service over time. Hansemark and Albinsson (2004) defined satisfaction as an overall customer attitude or behavior towards a service provider, or an emotional reaction towards the difference between what customers expect and what they receive, regarding the fulfillment of some desire, need or goal.

A satisfied customer will repeat the purchase of the product and, will tell other potential customers positive things about the service (Metawa & Almosawi, 1998). Consequently, satisfaction is considered an antecedent of future intentions (Cronin & Taylor,

1992). Otherwise, unsatisfied customers tend to convey their negative impression to other customers or create a negative word of mouth and finally drive to switching action (Mohsan *et al.*, 2011).

Athanassopoulos, Gounaris and Stathakopoulos (2001) examined the impact of customer satisfaction on switching intention as one of behavioral responses and found negative relation between both construct. When bank consumers have inferior perceptions of customer satisfaction, they would engage in unfavorable behavioral response. Similar findings on studies conducted by Clemes *et al.* (2007) and Vyas and Raitani (2014) noted that customer satisfaction was among the most significant factor contributing to customers' switching behavior in banking industry.

In the context of Islamic banking, Amin *et al.* (2011) examined the role of customer satisfaction in enhancing the loyalty of Islamic banking customers in Malaysia and its influence to switching intentions. The finding shows that customer satisfaction has a statistically significant positive effect on customer loyalty and intentions to switch for Muslim and non-Muslim customers. Altwijry and Abduh (2013) tested customer satisfaction level for service attributes and linked to the likelihood of switching to other banks when customers experienced bad quality of service attributes. The result shows that customers likelihood to switch when they experience low performance on 'ATM location', 'internet banking', attributes related to staff's ability to handle issues from customers and 'cost of services'.

Therefore, the following hypothesis is proposed:

H6 = there is a negative relationship between customers satisfaction and customers' switching behavior in Islamic banks.

### 2.2.7 Service Failure Dimension

Gerrard and Cunningham (2004) described incidents of service encounter failures: uncaring, impolite, unresponsive or unknowledgeable staff. Financial services are often provided at a service counter with direct contact between a bank's employees and the customer, or by telephone, or by having the customers interact with the bank's automatic teller machine (ATM) (Vyas & Raitani, 2014).

Service failures may lead to customer dissatisfaction. According to Stewart (1998), dissatisfaction in relation to a particular problem or incident may not be sufficient to occasion customer exit. The exit is likely to be promoted when the customer remembers prior instances or when the same problems have emerged. However, a history effect as a lack response to service failure may exaggerate the circumstances and bring the customer closer to exit or likelihood of a customer switching incident.

Keaveney (1995) empirically found that service failure was a factor contributing to customer switching behavior. In addition, the study reported that 44 percent of the respondent described core service failure incident as the reason for service switching. Gerrard and Cunningham (2004) investigated the Asian banking market and confirmed that banking switching is strongly associated with service failures, pricing and inconvenience. Vyas and Raitani (2014) confirmed items related to the readiness of bank employees to solve the problems or correct their mistakes and their responsiveness to any kind of service failure were drivers of switching behavior. Colgate and Hedge (2001) in a survey of switching process in banking services documented that service failure, pricing problems and denied services were the main reasons for switching bank in Australia and New Zealand. However, Clemes *et al.* (2007) employed logistic regression approach to investigate customer switching behavior in the New Zealand banking industry and found that service failure was not significant influence on switching decision.

Therefore, the following hypothesis is proposed:

H7 = there is a negative relationship between service failure and customers' switching behavior in Islamic banks.

### **III. RESEARCH METHOD**

The purpose of the study is to examine factors that drive customers' switching behavior in the Islamic bank. A customer switching behavior is represented by an individual's switching intention. Unfortunately, an individual switching intention is not observable. Thus, study needs to construct an observable proxy to capture an individual's intention to switch banks based on the responses to the questions in the questionnaire survey. According to Ajzen and

Fishbein (1980) individual's intention may represent the actual behavior. Thus, this study predicts a customer's switching behavior through an individual's switching intention.

Based on the switching literature review conducted, the study identified six variables that may lead to customers' bank switching behavior. They are customer satisfaction, service quality, prices, advertisement, service failure and involuntary switching. In the context of Islamic bank, the drivers of the switching behavior may include variable(s) that related to its unique characteristics which is shariah compliance dimension. Thus, the study considered shariah compliance dimension as one of important factors determining customers' switching behavior in the Islamic banks.

### 3.1 Data Collection

To identify factors that contribute to customers' switching behavior in the context of the Islamic banks in Indonesia data collection is taken through survey method. Data used in this study are primary data obtained from a survey conducted on Islamic bank customers in Banten province area of Indonesia, particularly in Ciputat, Tengel and Pamulang. Data were collected through a self-administered questionnaire. Since there is no list of respondents, for the next step, convenience sampling will be applied to get reasonable number of respondents from Islamic bank customers. In total, 200 questionnaires were distributed to the respondents; however, after selecting those questionnaires only 112 were usable to further analysis.

### 3.2 Questionnaire Design

Primary data were collected from the Islamic bank customers through survey instrument. The survey instrument used five-point Likert-type scale ranging from "completely disagree" to "completely agree". Generally, the questionnaire contains two sections: the first section was designed to gather information about the respondents' personal, demographic and economic characteristics. In the second section, the respondents were asked to indicate their perceptions on a five-point Likert-type scale ranging from 1 to 5.

The scale 1 represents to “completely disagree” while scale 5 means “completely agree”.

With regard to perceived service quality, seven items were generally adopted from Amin and Isa (2008), Awan *et al.* (2011), Clemes *et al.* (2010), Zeithaml, Berry and Parasuraman (1996). While items related to Customer satisfaction was measured through seven items extracted from Amin *et al.* (2011), Amin and Isa (2008), Clemes *et al.* (2010) and Estiri *et al.* (2011) In order to measure service failure, three items were adopted from the literature like Clemes *et al.* (2007), Gerrard and Cunningham (2004), and Vyas and Raitani (2014). Similarly, three items relating to prices were obtained from Clemes *et al.* (2010), Gerrard and Cunningham (2004), Keaveney (1995), and Vyas and Raitani (2014). Involuntary switching was measured through three items compiled Anjun *et al.* (2011), Clemes *et al.* (2010), and Vyas and Raitani (2014). To measure the advertisement, four items were adopted from the literature such as Clemes *et al.* (2010) and Vyas and Raitani (2014). Last, switching intentions through three items borrowed from Wong and Mula (2009). Most of these factors and their items have been identified from previous banking switching behavior, while in the context of the Islamic banks shariah compliance and its items were included to represent the uniqueness of the Islamic banking system. Shariah compliance was measured through five items summarized from Dusuki and Abdullah (2007) and Erol and El-Bdour (1989).

To optimize the design and final result of the study, the questionnaire design involved several steps such as focus group interview, lay out of the survey instrument, a pretest and the final survey instrument. A pretest of the questionnaire was conducted from random sample comprising 30 respondents of the Islamic bank customers. The original items of the questionnaire were translated into Indonesian language and distributed to the relevant respondents.

### **3.3 Models and Regression Analysis**

As stated earlier that the study investigates the influence of explanatory variables namely customer satisfaction, service quality, involuntary switching, shariah compliance, prices, service failure

and advertisement to customers' switching behavior in Islamic banks. OLS regression provided estimation to predict switching action (see for example Abduh *et al.*, 2013; Chakravarty *et al.*, 2004; Clemes *et al.*, 2010; and Ranaweera & Prabhu, 2003). In addition Manrai and Manrai (2007), Ranaweera and Prabhu (2003) and Zain, Najihah and Faizal (2012) employed Pearson' correlation to measure relationship between likelihood of switching and its main factors.

Regression analysis (OLS) has become an important method of inferential statistics used with any data analysis concerned with describing the relationship between a response variable and one or more explanatory variables. In addition, Pearson's correlation is excessively used to complement the regression analysis. It provides relationship between two or more variables.

Therefore, OLS regression and Pearson's correlation are employed to identify factors that contribute to customers' switching behavior. In addition, descriptive analysis is used to describe profile of the respondents and variables developed. On the other side, to ensure the reliability and consistency of the variable items, the study adopts Cronbach's Alpha.

To achieve the aim of the study, three models are developed to examine factors determining customers' switching behavior. The models are:

Model 1:

$$\begin{aligned} \text{Switching} = & \beta_1 + \beta_2 \text{Involuntary Switching}_1 + \beta_3 \text{Service failure}_2 \\ & + \beta_4 \text{Prices}_3 + \beta_5 \text{Advertisement}_4 + \beta_6 \text{Shariah compliance}_5 \\ & + \beta_7 \text{Customer satisfaction}_6 + \varepsilon_i \end{aligned} \quad (1)$$

Model 2:

$$\begin{aligned} \text{Switching} = & \beta_1 + \beta_2 \text{Involuntary Switching}_1 + \beta_3 \text{Service failure}_2 \\ & + \beta_4 \text{Prices}_3 + \beta_5 \text{Advertisement}_4 + \beta_6 \text{Shariah compliance}_5 \\ & + \beta_7 \text{Customer satisfaction}_6 + \beta_8 \text{Service quality}_7 + \varepsilon_i \end{aligned} \quad (2)$$

Model 3:

$$\begin{aligned} \text{Switching} = & \beta_1 + \beta_2 \text{Involuntary Switching}_1 + \beta_3 \text{Service failure}_2 \\ & + \beta_4 \text{Prices}_3 + \beta_5 \text{Advertisement}_4 + \beta_6 \text{Shariah compliance}_5 \\ & + \beta_7 \text{Customer satisfaction}_6 + \beta_8 \text{Service quality}_7 \\ & + \beta_9 \text{Customer satisfaction} * \text{Service quality}_8 + \varepsilon_i \end{aligned} \quad (3)$$



where:  $\beta_1$  and  $\beta_{1-9}$ : constant value and coefficient estimation, and  $\varepsilon_i$ : error.

In the first model, it excluded service quality and included to the equation in the second model. Finally, the two interaction variables were added to the third model. The study serves service quality as a mediating factor in the relation between customers satisfaction to bank switching.

## **IV. RESULTS AND DISCUSSIONS**

### **4.1 Profile of The Respondents**

Table 1 reports the descriptive statistics of the respondents in this study. A total of 200 questionnaires were distributed and only 112 usable. The respondents comprise 51.8 percent of females while males accounted for 48.2 percent. Almost 99 percent of the respondents fall in the range of 18-55 years of age. Table 1 also indicates the majority of respondents are well educated, with more than 58.9 percent holding a bachelor degree and about 22.3 percent holding a Master and PhD. The table also reveals that the respondents represent a balanced mix of various occupations namely entrepreneur (26.8 percent), private employee (13.4 percent), government employee (12.5) and teacher/lecturer (18.8 percent). With regard to the income level, majority (33.9 percent) of the respondents are in 1-29 million rupiah monthly income group. A total of 24.1 percent of the surveyed respondents earn between 3-6.9 million rupiah. Combined together, the respondents in those two groups represent approximately 58 percent of the sample. In addition, 13.4 percent of the respondents earn more than 10 million rupiah per month. This finding indicates that most of the respondents can be classified as the middle-class income earners. The Table 4 also provides information about duration of the relationship with the banks. It appears that most (67 percent) of the respondents has less relationship with the banks as their relationships are below three years. Otherwise, 32 percent of the respondents have bank relationship more than 4 years.

**Table 1.**  
**Demographic and Socioeconomic Characteristics of the Respondents**

Items	Frequency	Percentage (%)
<b>Gender</b>		
Male	54	48.2
Female	58	51.8
Total	112	100
<b>Age</b>		
18 - 25	65	59.8
26 - 35	13	11.6
36 - 45	17	15.2
46 - 55	14	12.5
> 55	1	0.9
Total	112	100
<b>Education</b>		
School	19	17.0
Diploma	2	1.8
Bachelor Degree	66	58.9
Postgraduate (Master & PhD)	25	22.3
Total	112	100
<b>Occupation</b>		
Entrepreneur	30	26.8
Private Employee	15	13.4
Government Employee	14	12.5
Teacher/Lecturer	21	18.8
Others	32	28.6
Total	112	100
<b>Status</b>		
Single	46	41.1
Married	66	58.9
Total	112	100
<b>Bank Relationship</b>		
< 1 year	26	23.2
1 -3 years	50	44.6
4 - 6 years	14	12.5
> 7 years	22	19.6
Total	112	100
<b>Income</b>		
< 1 million	28	25.0
1 - 2.9 million	38	33.9
3 - 6.9 million	27	24.1
7 - 9.9 million	4	3.6
> 10 million	15	13.4
Total	112	100

#### 4.2 Reliability Analysis (Cronbach's Alpha)

To test the reliability of service failure (three items), customer satisfaction (four items), service quality (seven items), advertisement (four items), involuntary switching (three items), shariah compliance (four items), prices (three items), and switching intention

(three items), the Cronbach's alpha was computed. The coefficient alpha for each variable exceeded the minimum standard of 0.60 which is acceptable in similar theory building studies (Vyas & Raitani, 2014). It is concluded that all the statements are reliable and consistent. The higher value of Cronbach's alpha coefficient means good internal consistency for each latent construct (Amin *et al.*, 2011). Table 2 provides result of Cronbach's alpha.

**Table 2.**  
**Validity and Reliability**

Variable	No. of Items	Cronbach's Alpha
Service Failure	3	0.643
Customer Satisfaction	4	0.740
Service Quality	7	0.757
Advertisement	4	0.878
Involuntary Switching	3	0.853
Shariah Compliance	4	0.853
Prices	3	0.784
Switching Intention	3	0.947

### 4.3 Descriptive Statistics

Table 3 presents the descriptive statistics of the each variable. Shariah compliance, customer satisfaction, service quality and service failures have mean value ranging 3.708 to 4.015. It is apparent that respondents considered all of those variables are important. Otherwise, advertisement, involuntary switching and prices are below three. It means that customers were mostly to disagree with the variables.

**Table 3.**  
**Descriptive Statistics**

Description of Variables	Mean	Std. Deviation
Service Failure	3.7083	0.57843
Customer Satisfaction	3.9375	0.49718
Service Quality	3.7985	0.44625
Advertisement	2.8988	0.83209
Involuntary Switching	2.4940	0.86064
Shariah Compliance	4.0156	0.61447
Prices	2.9851	0.83993

#### 4.4 Pearson's Correlation

Simple correlation (Pearson) is employed to examine the relation between service failure, customer satisfaction, service quality, advertisement, involuntary switching, shariah compliance, prices and likelihood to switching. These correlations and their statistical significant are given in Table 4. As can be seen, involuntary switching, prices, and service quality have positive and significant relationship with switching intention of the banking customers at 0.01, 0.05 and 0.1 levels respectively. On the other hand, the relationship between customer satisfaction and switching intention is negative and statistically significance at 0.05 level. Those results provide support that customer satisfaction, service quality, and involuntary switching is sufficient to predict likelihood of customer switching intention in the Islamic banking system. Therefore, H1, H3, H5, and H6 are supported. However, there is a positive relationship between service quality and customers' switching banks.

**Table 4.**  
**Pearson's Correlation**

Variables	Switching Intention
Service Failure	0.024 (0.803)
Customer Satisfaction	-0.221** (0.019)
Service Quality	0.162*** (0.087)
Advertisement	0.143 (0.133)
Involuntary Switching	0.536* (0.000)
Shariah Compliance	0.123 (0.196)
Prices	0.196** (0.038)

Notes: \*Significant at 0.01 level;  
 \*\* Significant at 0.05 level;  
 \*\*\* Significant at 0.10 level

#### 4.5 Regression Estimation

To investigate factors driving customers' intention to switch, the study develops three models employing ordinary least square (OLS) regression approach. Earlier studies (for example: Lassar, Manolis, &

Winsor, 2000; Taylor & Baker, 1994; Wang, Lo, & Hui, 2003) revealed that there is higher relationship between service quality and customer satisfaction and affect to the switching behavior (Amin *et al.*, 2011). Thus, the study constructs three models. In the first model, it excluded service quality and included to the equation in the second model. Finally, the two interaction variables were added to the third model. The approach was used, on the other hand, is to prevent the interaction variable from causing unacceptable levels of multicollinearity (Ranaweera & Prabhu, 2003). It seems that service quality as a moderating factor for the relation between customer satisfaction and switching intention. The OLS regression results of the three models are shown in the Table 5.

OLS regression analysis is used to identify the influence bank customers' switching behavior for each model. As shown in Table 5 that F-statistic values are significant ( $p < 0.01$ ) for each model. It is indicated that all the factors in the equations are predicted to influence the switching behavior in the Islamic banks. In addition, Adjusted R<sup>2</sup> values are 0.351, 0.358 and 0.372 for model 1, model 2 and model 3 respectively.

As depicted in Table 5, model 1 shows that involuntary switching, shariah compliance and customer satisfaction are statistically significant at the 0.01 and 0.05 level respectively. Thus, these factors are all significant, and positive or negative changes in the factors are likely to influence the probability that customers to switch banks. A similar finding is also presented in model 2 that those three variables namely involuntary switching, shariah compliance and customer satisfaction are statistically significant in driving customers' switching behavior. In addition, the model 3 reveals that there is a significant negative relationship between bank customers' switching behavior and service quality. This means that service quality dimension leads to the propensity to switch banks. Therefore, it is summarized that involuntary switching, shariah compliance, customer satisfaction and service quality are the factors contributing to customers' switching behavior in Islamic banks. Consequently, H1, H3, H4, and H6 are supported. However, shariah compliance are positively influence to bank switching. On the other hand, service failure, advertisement, and prices are statistically not significant in influencing customers' intention to switch banks.

**Table 5.**  
**OLS Regression on Switching Intention**

Variables	Model 1	Model 2	Model 3
	Coefficients (P-values)	Coefficients (P-values)	Coefficients (P-values)
Constant	0.765 (0.316)	1.029 (0.201)	6.231 (0.078)
Service Failure	0.061 (0.649)	0.121 (0.405)	0.117 (0.420)
Advertisement	0.23 (0.802)	0.035 (0.708)	0.020 (0.826)
Involuntary Switching	0.472* (0.000)	0.463* (0.000)	0.447* (0.000)
Shariah Compliance	0.249** (0.034)	0.272** (0.023)	0.235*** (0.053)
Prices	0.111 (0.185)	0.100 (0.237)	0.090 (0.284)
Customer Satisfaction	-0.373** (0.021)	-0.299*** (0.089)	-1.585*** (0.069)
Service Quality		-0.223 (0.299)	-1.561*** (0.087)
Customer Satisfaction*Service Quality			0.346 (0.130)
Regression F-statistic	9.484 (0.000)	8.291 (0.000)	7.637 (0.000)
R-square	0.351	0.358	0.372
Number of obs.	112	112	112

Notes:

\*Significant at 0.01 level; \*\* Significant at 0.05 level; \*\*\* Significant at 0.10 level

## 4.6 Finding Analysis

The Pearson's correlation and OLS regression identifies five key factors that contribute to customers' switching behavior in Islamic banking industry. The factors are customer satisfaction, service quality, involuntary switching and shariah compliance. However, service failure and advertisement did not statistically significant in determining bank switching in Islamic bank.

### 4.6.1 Customer Satisfaction

Customer satisfaction dimension comprises overall satisfaction of customers based on their banking experience. For example "I am satisfied with the overall services delivered by my bank". The study shows that customer satisfaction is an important factor that contributes to the customers' bank switching behavior. Customer satisfaction has a negative influence to the switching intention. The

finding is similar with the studies of Athanassopoulos *et al.* (2001), Clemes *et al.* (2007), Hashim and Kadir (2010), and Vyas and Raitani (2014). Customers who gain satisfaction from services tend to maintain their relationship with the Islamic banks. Customer satisfaction acts an exit barrier which helps company in customer retention and lead to repurchase action (Taylor & Baker, 1994). Otherwise, when customers have inferior customer satisfaction, they would engage in unfavorable behavioral responses (Athanassopoulos *et al.*, 2001; Vyas & Raitani, 2014). Moreover, unsatisfied customers tend to convey their negative impression to other customer and finally drive to switching action (Mohsan *et al.*, 2011).

#### **4.6.2 Service Quality**

Service quality referred to customer perception on the performance of the service quality dimension as proposed by Parasuraman *et al.* (1985). For example "Staffs of the Islamic banks are knowledge". The study confirms that service quality is another important factor that influence to the customers' bank switching behavior. The higher perceived service quality the lower of the customers to switch banks. The result supports to Amin *et al.* (2011), Clemes *et al.* (2010), Colgate and Hedge (2001), Gerrard and Cunningham (2004), Hashim and Kadir (2010), and Keaveney (1995). According to Clemes *et al.* (2010) service quality plays an important role in supporting business development as service quality has favorable impact on customer satisfaction, repurchase behavior and business profitability. Drivers of switching behavior did not work in isolation as it is an outcome of negative service experiences (Vyas & Raitani, 2014).

#### **4.6.3 Shariah Compliance**

The shariah compliance is the backbone of an Islamic bank (Hasan, 2010). Its whole operation should in line with the shariah principles (Rama, 2015c). For example "My Islamic bank consistently provides banking products and service that are shariah compliance". Finding of the study reveals that shariah compliance dimension is an important factor determining customers' bank switching behavior. The result confirms the earlier studies conducted by Abduh *et al.* (2013) and Ahmed (2003) that compliance to the Islamic principles is

an important consideration for customers as it is one of important switching barrier factors. The shariah violation may result to the depositors' withdrawal (Ginena, 2014), particularly for the religious-based customers as they choose an Islamic banks due to religious consideration (Metawa & Almossawi, 1998; Metwally, 1996; Naser *et al.*, 1999).

#### 4.6.4 Involuntary Switching

Involuntary switching refers to unintentionally bank switching due to moving house, changing job, branch of the bank being closed or other factors beyond the control of the customers or service providers (Keaveney, 1995). For example "I will switch from my current Islamic bank if I move workplace". The study confirms that involuntary switching (such as moving house, changing job, and closing of an Islamic bank branch) is an important factor that influence the customers' switching behavior. The finding supports to earlier studies (see Anjun *et al.*, 2011; Clemes *et al.*, 2010; Keaveney, 1995; Vyas & Raitani, 2014) that involuntary switching is one of the contributing factors encouraging customers to switch banks. A bank may provide a perfect service quality and meet their customers' expectations. However, the bank can still lose their customers due to reasons beyond the control of either party (Clemes *et al.*, 2010).

#### 4.6.5 Prices

In the context of banking, price has a wider implication than in other services. It included rates, fees, charges, surcharge, penalties, price deals, and coupons or price promotion (Keaveney, 1995). For example "The Islamic bank charges higher administrative fees for the customers". The study shows a contradictory finding on the influence of prices to the customers' switching behavior. Result of Pearson's correlation provides a statistically positive relationship between prices and intention to switch banks at 0.05 level. However, OLS regression shows otherwise that prices are not statistically significant. This means that prices dimension is not a critical factor that determines customers' switching behavior. This seems to be similar with Clemes *et al.* (2007). On the other sides, Clemes *et al.* (2010), Colgate and Hedge (2001), Gerrard and



Cunningham (2004), and Keaveney (1995) proved that price dimension was among the driving factors impacted to switching action. Unfavorable price perceptions may result in negative effect, such as encouraging customers to switch to another bank that provide better price options (Gerrard & Cunningham, 2004).

#### **4.6.6 Service Failure**

Service failure constitutes to items related to the readiness of Islamic bank employees to solve the problems or correct their mistakes and their quick responsiveness to any kind of service failure (Vyas & Raitani, 2014). The item is, for example, "The staffs of the Islamic bank response immediately and properly to the service failure". Service failure may lead to customer satisfaction and finally influence to the customers' bank switching. Many earlier literatures proved that service failure dimension was considered as among important factors that contributed to the switching incident in the banking industry (Clemes *et al.*, 2010; Colgate & Norris, 2001; Colgate & Hedge, 2001; Gerrard & Cunningham, 2004; Keaveney, 1995; Vyas & Raitani, 2014). Those studies confirmed that poor responses to service failure led to customers' satisfaction that affected to switching action. However, the study finds that service failure is not significant influence on switching decision. The result is similar with study of Clemes *et al.* (2007). Dissatisfaction in relation to a particular problem or incident may not be sufficient to occasion customer exit (Stewart, 1998). Moreover, dissatisfaction on service failure will end when service recovery conducted and finally discourage switching intention.

#### **4.6.7 Advertisement**

Advertisement includes questions regarding the impression of the advertisement content and promotion delivered by an Islamic bank. The item is, for example, "The advertisement of the Islamic bank is delivered in creative and meaningful way". Literatures provide evident that advertisement dimension affected to customers' behavior and customer switching (see Clemes *et al.*, 2010; Vyas & Raitani, 2014). Those studies confirmed that advertising plays a significant role in determining customers' switching behavior. However, the study finds that advertisement does not play

statistically significant influence in promoting switching action in Islamic banks. The finding is supported by Clemes *et al.*, (2007). In fact, there is controversy about the effect of advertising on switching among researchers (Vyas & Raitani, 2014). On one hand, several studies proved that advertising helps retaining customers (Cengiz *et al.*, 2007) while on the other hand, it argued that an effective advertising completion may stimulate switching (Vyas & Raitani, 2014).

## V. CONCLUSION AND IMPLICATIONS

The current study examines factors which are found in the literatures contributed to customers' switching behavior. The model is adopted to identify switching behavior in Indonesian Islamic banking industry. According to OLS regression (model 1,2 and 3), four critical factors namely customer satisfaction, service quality, involuntary switching and shariah compliance are considered as determinant factors to switching behavior in Islamic bank. In addition, Pearson's correlation provides an evident that prices have a significant-positive relationship with the switching intention among Islamic banking customers. However, the study proves that service failure and advertisement are not significant influence to customers' switching behavior in the context of Islamic bank in Indonesia. Taking account to these contributing factors, it is apparent that an Islamic bank requires to shaping their business model around customers' needs and focuses operational improvements on customers' most valued interactions such as service quality and customer satisfaction, compliance to shariah principles and prices as those may drive to customer's relationship termination.

The findings of the study provide valuable information to the Islamic banking players particularly in identifying most critical factors driving to customers to end their current relationship with the Islamic banks. The study successfully describes customers' switching behavior and its important drivers. The managers who are engaged in customer relationship should focus cautiously on above-mentioned factors. The inferior perceptions of those critical dimensions will lead to switching behavior. Bank should seek to develop strategies to enhance behavioral response to customer

satisfaction, service quality, shariah compliance, involuntary switching as well as pricing strategy.

An Islamic bank should consistently prove that its whole operations are compliance to shariah principle and values. It should provide an effective shariah governance to ensure the shariah compliance of the Islamic bank's operation. The violation of the shariah principles will decrease its credibility and potentially lead to depositors' withdrawal especially for those are religious-based customers. On the other hand, Islamic bank should review their current pricing strategy. The manager should ensure to provide competitive prices to customers. Uncompetitive prices could drive customers to switch bank that offers better price option.

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## APPENDIX

### Coefficients <sup>a</sup>

Model		Collinearity Statistics	
		Tolerance	VIF
1	Service_Failure	.638	1.568
	Customer_Satisfaction	.600	1.667
	Service_Quality	.491	2.037
	Advertisement	.750	1.333
	Involuntary_Switching	.860	1.163
	Shariah_Compliance	.848	1.179
	Prices	.898	1.114

a. Dependent Variable: Switching\_Intention

### Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.598 <sup>a</sup>	.358	.315	.70541	1.827

a. Predictors: (Constant), Prices, Service\_Failure, Shariah\_Compliance, Involuntary\_Switching, Advertisement, Customer\_Satisfaction, Service\_Quality

b. Dependent Variable: Switching\_Intention

### Descriptive Statistics

	N	Mean	Std. Deviation	Skewness	Kurtosis	Std.	
						Statistic	Statistic
						Statistic	Error
Unstandardized Residual	112	.0000000	.68637092	.836	.228	1.825	.453
Valid N (listwise)	112						