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## **WHICH DOES DRIVE SWITCHING COSTS IN RETAIL BANKING INDUSTRY; OPENNESS TO EXPERIENCE OR SERVICES QUALITY?**

### **Abstract:**

The major aim of this study is to investigate and compare the influence of service quality and openness to experience on customers switching costs. Self-administrated survey was used to collect data from bank customers in the UAE. Structural Equation Modeling (SEM) using AMOS.20 was used to test for the hypothesized relationship. The results showed that service quality has a positive and significant relationship with switching costs. However, the personality traits of openness to experience had a negative and significant relationship with switching costs. Bank managers should not keep a higher level of service quality regardless of the type of customers' personality of openness to experience. Bank managers need to investigate the level of this personality in order for them to identify the relational oriented customers

### **Keywords:**

Services Quality; Openness to experience; Switching Costs; Banks

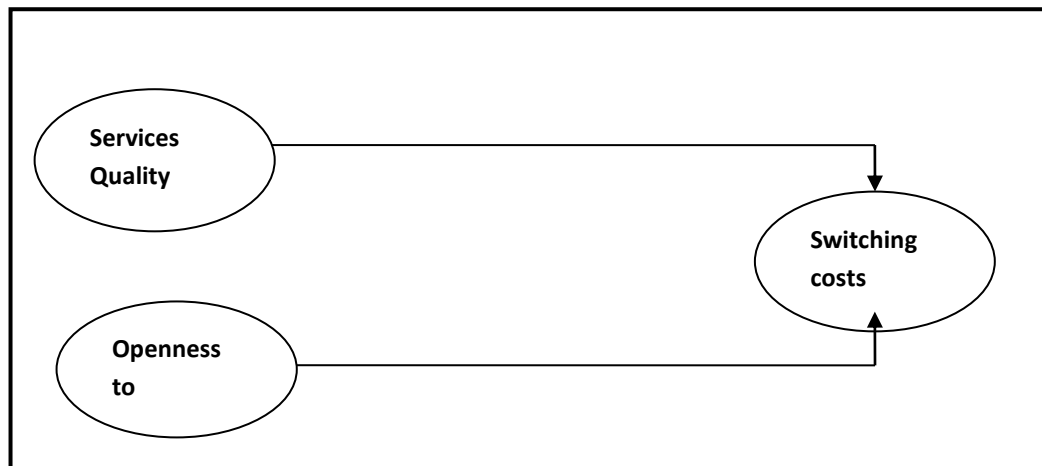
**JEL Classification:** M39, M31, M31

## Introduction

The topic of customers switching behavior has gained a considerable attention in the literature due to its link with survival, profitability, and growth of the organization (Asimakopoulos and Asimakopoulos, 2014). Consumers switching behavior is highly influenced by customers perceived switching costs (Park, Park and Lee 2014). The study of switching costs antecedents is essential in understanding the relational orientation and switching behavior of customers (Pick and Eisend 2014). However, only limited studies have been found in the literature that explores the antecedents and consequences of switching costs (Matzler et al., 2015).

Business has used switching costs as a customer retention strategy long time ago. Customer relationship strategy might influenced by customer personality doesn't a matter what marketing strategy bank might adopt. In this respect, some researchers have raised the issue to the need to consider the personal characteristics of customers as an important factor determining the nature of their relationship with the supplier. The current literature narrowly investigates the drivers of switching costs in traditional brick and mortar retail markets (Matzler et al 2015, Pick and Eisend 2014). With this research gap in mind, this paper examines the impact of selected drivers, namely; openness to experience, and services quality on switching costs and compare between them. The current study will provide further insight into the drivers of switching costs from a new perspective helping banks minimizing defection rate

**FIGURE 1 - Theoretical model**



## Literature Review

### The Personality trait of Openness to experience,

Personality trait is defined in the literature as internal organization of psychological systems that leads a person behaviors, tendencies, and feelings Carver and Scheier (2004). Many previous studies used human personality traits as a predictor of human

believes as well as behavior in different contexts, including the online banking contexts (Al-hawari, 2015; Yoon and Steege, 2013). The personality of bank customers interact with a service experience shaping their attitudinal intentions and subsequent behaviors; customers might prefer a particular service if it fits their personality traits or their own concepts (Al-hawari, 2015).

Openness to experience has been considered as a person tendency to be imaginative, intellectually interested, and open to experiencing new things (Burke and Witt, 2002). Thus, it can be useful to study the openness impact further to improve our understanding of customers' relationship.

### **Switching Costs**

Many studies previously considered switching costs as an exit barrier strategy (Li, 2015). In the last few years many studies have contributed significantly to clarifying the concept of switching costs (Blut et al 2014). The widely accepted definition of switching costs includes monetary and non-monetary costs. The non-monetary aspect of the switching costs includes psychological costs and uncertainty feelings related to the relationship loss (Blut et al 2014). The Monterey part of the switching costs includes the financial and performance risk associated with changing the service provider (Al-Hawari, 2014B). Thus, switching costs is defined in this study as customers' concerns of time, money and effort when they change their service provider (Mato et al 2013).

### **Services quality**

Financial services industry is changing rapidly in the UAE due to the technology, governmental deregulation, and the increasing level of customers' needs sophistications. Services quality has become a very important topic within the banking industry across the globe. Banks that offer a distinguished level of services quality can have a competitive edge. There were many different examples of services quality measurement models in the literature in different services industry. Cronin and Taylor (1994) developed the SERVPERF model that uses the same five dimensions of the SERVQUAL but with the major focus on the service actual performance not customers' expectations. The Five dimensions of SERVPERF model will be used in this study to measure customers' perception of service quality.

### **Hypothesis Development**

In this study, the view of Matzler et al (2015) is going to be extended by testing the impact of customers' personality of openness to experience, and services quality on customers switching costs. It also have been noticed that all of the previous studies of the switching costs drivers have been conducted in other contexts rather than banking contexts. The influence of the antecedents on switching costs can be affected by type of the product or service, or the study context (Pick and Eisend, 2014). It would be very interesting to apply

the conceptual model of the study on the banking context in order to provide further insight on the generation of switching costs.

Personality traits act together with people services experiences to shape customers subsequent attitudes and behaviors with their organization (Al-hawari, 2014). Based on this view, openness to experience can be considered as a trigger of time, money, and efforts concerns when customers consider switching the relationship with their banks, hence, affecting the perceived switching costs. People who low on openness tend to be close to new experiences and more traditional and conventional in their attitudes and behavior (Yoon and Steege, 2013). While people who score high on openness to experience tend to have more interests, and they are more open to a new ideas and inventiveness. Those people also have more imagination and curiosity; they also tend to seek out opportunities to learn new things (Tsao and Chang, 2010). Thus,

H1: Openness to experience has a negative relationship with switching costs

In the traditional marketing context, it was consistently agreed that higher customers' quality leads to a greater degree of customers' loyalty. When bank customers perceive that their company meets the agreed conditions consistently, the customers' willingness to continue the relationship becomes stronger (Al-hawari, 2015). It is valid to conclude that in the context of banking, if the bank meets customer expectations regularly will result in increasing customers' intentions to stay, Thus, H2 can be formulated as the following

H2: Service quality increases customers perceived switching costs

### **Study Methodology**

In the final survey, data were collected from bank customers in the UAE shopping malls in the major cities of Dubai and Sharjah. Approximately 1300 bank customers were approached. The final sample size was 410 (response rate = 31%). Items from previous research were used to measure the major variables in the proposed conceptual model. All major variables were measured using a five-point Likert scale, where 1 reflected "strongly disagree," and 5 reflected "strongly agree."

Services quality was measured in this paper using five items adopted from Cronin and Taylor (1994). Openness to experience was measured using five items adopted from Bove and Mitzifiris (2007) and Migliore (2011). The three items of the switching costs were widely used in the literature and mainly adopted from studies in the banking and other service contexts by Beerli, Martin, and Quintana (2004), and Edward and Sahadev (2011).

### **Data Analysis.**

Structural equation modeling (SEM) was first used to confirm the validity and the reliability of the measurement items of all variables in the conceptual model. Standardized regression weight (R) for each measurement item, composite reliability, and variance extracted were used to test the reliability of each construct in the measurement model (Hair et al., 1995).

The run of the measurement model showed that the R for all measurement items was close to or greater than 0.7, indicating good reliability (Holmes-Smith, 2001). The composite reliability and variance extracted values (Fornell and Larker, 1981) exceeded the minimum acceptable values of 0.7 and 0.5, respectively (Holmes-Smith, 2001). Thus, the measures are reliable, leading to very consistent results.

### **Hypotheses Testing**

The overall fit indices for the proposed structural model were  $\chi^2 = 193.1$  (df = 62, p = 0.00),  $\chi^2/df$  ratio = 3.11, comparative fit index (CFI) = 0.932, and RMSEA = 0.07 (Hair et al., 1995). These values indicate that the model fits the data reasonably well. The analysis of the full sample of 410 respondents showed a significant and positive relationship between service quality and switching costs, as well as significant but negative relationship between openness to experience and switching costs, as P=00 supporting H1 and H2. See table.1 below

**Table 1: H3 Testing Outcomes**

	<b>Full Sample</b>
<b>Openness → SC</b>	<b>-0.318**</b>
<b>Quality → SC</b>	<b>0.524**</b>
$\chi^2$	<b>162</b>
$\chi^2/df$ ratio	<b>3.11</b>
<b>CFI</b>	<b>0.932</b>
<b>Significant paths</b>	<b>2</b>
$R^2$ (Switching Costs)	<b>0.190</b>
<b>Sample Size</b>	<b>410</b>

**\*\*Significant at 0.000 level**

### **Conclusion and implications**

The main aim of this study is to investigate the impact of service quality and the personality traits of openness to experience on customers' perception of switching costs. The study results confirmed the literature and found significant impact of services quality on switching costs. Moreover, the results have also confirmed what the literature speculated and narrowly investigated on the relationship between openness to

experience and switching costs. Openness to experience influenced switching costs significantly and negatively.

The outcomes of the study have confirmed the literature and proved that the personality traits act together with people services experiences to shape customers subsequent attitudes and behaviors with their organization (Al-hawari, 2014). Both drivers are important in shaping customers perception of switching costs. Banks managers should not only focus on the issue of service quality regardless of customers personality traits. Banks managers should give a significant attention to deliver services that meet customers' expectations, so it is harder for customers switch to another bank. However, this strategy should be implemented with careful and a good attention to customers' openness to experience trait. Bank managers should customize services to profitable customers with high openness to experience trait as they have more tendency of switching. Customers with low degree of openness might be consider the relational oriented customers with higher chances to retain them.

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