

Conference Paper

Factors Affecting Customer Switching Intentions in the Sharia Banking Industry in Malang (A Conceptual Framework)

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Abstract

The development of sharia banks in Indonesia is quite good in general, but many people's perception of a sharia bank is still negative, and public participation and awareness are still low. This fact may be as a result of public confidence in sharia banks still being low, customer attitudes toward product service being still negative, the cost being relatively high and contribution to profit-sharing still being low. The results of previous empirical studies also showed that community loyalty to Islamic banks is still low compared with conventional banks. Many studies have been conducted by previous researchers in the field of both banking and non-banking sectors as to why customers have switching behavior. In addition, there is a gap between the results of research quality of service to customer loyalty. Based on the phenomenon, problems, and previous empirical studies, the researchers seek to build a research concept framework about customers' switching intention in the sharia banking industry in Malang. The purpose of this study is to confirm the factors that affect customers in the intention of switching to a conventional bank. The unit of analysis in this study is respondents (customers) who have not made a move or customers who are still active in Islamic banks.

Keywords: service quality, satisfaction, trust, loyalty, switching intention

1. Introduction

The development and market of sharia banking is one of the most powerful sectors of the overall banking market in the world today (Islam, 2008). In some Asian countries it has increased the system of sharia business/banking globally. Idat (Republika News-room, 2018) mentions that there are currently over 300 sharia financial institutions in more than 75 countries and asset management of 700–1000 million US dollars. Furthermore, Thomas (Republika OnLine, 2018), states that sharia has become an alternative choice in various countries, ranging from Sweden to Australia. In fact, a number of countries in Asia already have an active sharia financial industry, such as in Indonesia, Singapore, Malaysia, Hong Kong and China.

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Increasingly fierce competition in the banking industry (as well as sharia banking) is required to make positive improvements and always strive to provide the best service to its customers. Kotler and Keller (2009) state that customers demand high quality service and more convenience. Banking, as one of the financial services sectors, has very big role in supporting a nation's development, providing job opportunities and economic growth of a country (Beck & Levine, 2000; Antonio, 2001). This sector also contributes to 4% of GDP (Daily Indonesia Investor Media, 28 March 2016), and also takes the role of collecting funds and channeling credit to the public (Cashmere, 2014).

When viewed from the population, Indonesia has the potential of a very large sharia banking market. But, in reality, the development and use of Islamic banking by the Islamic community in particular is still low. In 2010, the market share of sharia banking in Indonesia was only 3%, while Malaysia had reached 20% (Yogyakarta Republika OnLine, 2018). The results of research in Jakarta showed that only 7% used sharia banks, compared to 93% using conventional (Infobanknews, 2008). In addition, the study conducted by Yusuf (2006) in six major cities in Indonesia (Medan, Bandung, Semarang, Jakarta, Makasar and Surabaya) also supports the aforementioned study, that of the 23% who use a sharia bank only 20% are loyal, while 33% of respondents use conventional banking and the remaining 44% use both. This situation shows that public participation and awareness of sharia banking is still low (Ariffin et al., 2005). In addition, the public image of sharia banks is still negative compared to conventional banks (Karim & Affif, 2005).

The low participation and public awareness of sharia banking possibly causes consumers or customers' intention to switch to conventional banks. According to Clemes et al. (2010) switching behavior is the behavior of customers leaving one service provider to move to another service provider. The behavior of customer shifting has been widely studied in areas such as banking (Clemes, Gan, & Zhang, 2010), brand switching (Al-Kwifit et al., 2014), online shopping (Ahmed, 2015) and airlines (Jung, 2017). Keaveney and Parthasarathy (2001) reveal that certain customers will have a greater tendency to switch and ignore service failures. Likewise, You and Loh (2006) assert that outgoing and moving behavior occurs after product failure. The consequences of customer switching will have an impact on market share, firm position and profit to be gained (Colgate et al., 2001; Manrai et al., 2007). Based on the aforementioned view, it can be concluded that switching behavior is a certain condition that results in customers switching to other service providers in similar products or services.

In connection with switching behavior, there are many influencing factors, such as service encounter failure, pricing, electronic banking failure, service recovery failure, core service failure and inconvenience (Gerrard et al., 2004; Narteh, 2013). Research by Clemes et al. (2010) in Jiaozuo City, Henan Province, China, found that factors such as pricing, reputation, quality of service, effective advertising and switching costs have an impact on switching behavior of bank customers. The cost of switching and the perceived alternative attraction is a predictor for switching intent, switching costs seem to be more significant, either directly or indirectly, through customer satisfaction (Aydin et al., 2005; Chebat et al., 2011; Lam et al., 2004; Select & Eisend, 2013). Perceived alternative attractiveness is found to be a weak predictor to divert intentions because only moderate effects through customer satisfaction are observed. According to Manrai et al. (2007) switching behavior is influenced by customer satisfaction related to staff considerations, financial considerations, atmospheric considerations and convenience. While switching behavior is influenced by price, reputation, service quality, effective advertising, involuntary switching, and switching costs. According to Chakravarty et al. (2004), switching behavior is influenced by the duration and quality of service relationships with customers, whether they have had a problem with the bank in the past and in an attempt to retain a loyal customer. Customer satisfaction is a very valuable condition in the banking world because it will lead to customer loyalty, otherwise dissatisfaction leads to low loyalty and defection in all industries and can even lead to switching behavior, in retail banking in particular (Chakravarty et al., 2004). They explained that the possibility of a link between switching and satisfaction is significant in influencing the importance of service quality. To achieve customer satisfaction, according to Cashmere (2014), there is also a need to pay attention to service quality, ranging from staff who serve to the product on sale and after sales service. Service quality and satisfaction are very useful to increase the value of customer loyalty and to prevent switching behavior (Bell et al., 2005; Keaveney, 1995; Parasuraman et al., 1998), while Reichheld and Schefter (2000) argue that, to obtain customer loyalty, the main factor to note is trust. Furthermore, Zineldin (1995) proves that as many as 98% of the industry studied assume that trust and confidence are essential for bank selection. Likewise, Harris and Goode (2004) stated that trust is a key factor in supporting customer loyalty. In addition, trust will be the factor that determines the success or failure of a business (Shalhaib, 2006).

Bank customers may conduct switching behavior also due to financial considerations, especially low interest on deposits and high interest on loans, credit cards and loan (Mountinho et al. 1989; Manrai, 2007). According to Farah, (2017) switching

intention of customers, or banking customers in particular, is influenced by consumer attitudes toward a product or a banking service, Sanjukta et al. (2011) examined switching using Theory of Planned Behavior (TPB). This theory assumes that individual attitudes and beliefs, along with subjective norms and control factors, will lead to the intention to perform certain behaviors. Chang et al. (2017), using the push-pull-mooring model to investigate consumer switching channel intentions related to physical and mobile stores, found that the push and pull effect has a direct impact on switching intent. In addition, the application of push-pull-mooring migration theory (PPM) in measuring reasons for displacement was also used by Jung et al. (2017) to test the application of PPM on airline selection to clarify switching behavior. Structural analysis results also show that all categories of PPM directly affect switching intent. There is a contradiction with previous research which shows the immediate effect of the perceived alternative attraction on switching intentions (Bansal et al., 2005; Pick & Eisend, 2013). Another explanation of why the perceived alternative attractiveness has an insignificant direct effect on switching intentions on MTM Bangladesh is, perhaps, because other variables, such as perceived switching costs, customer satisfaction, etc., have a greater effect on switching and customer intentions did not find any other service provider.

Based on the problem, the phenomenon and the gap of previous empirical studies, this study aims to confirm the factors that affect customers for the switching intention to a conventional bank. Relationships between variables will be established in a concept framework of research models.

2. Theoretical Framework and Hypothesis

2.1. Service quality

Service quality has been seen as a meaningful issue in banking institutions, as improving quality is the most notable way to grow a business, expand markets and gain market share (Buzzel & Gale, 1987; Bowen & Hedges, 1993). Service quality can be defined as the difference between customer expectations for achievement of previous service achievements with perceptions of service received (Parasuraman et al., 1988; Asubonteng et al., 1996; Gefan, 2002). Tsoukatos and Rand (2006) propose that expectations are also influenced by marketing activities, external influences and word-of-mouth. Although many researchers have researched the service quality within the company, the study on issues related to sharia banks is still small (Shafie et al., 2004).

However, there are some empirical studies on the quality factor of the street banking in sharia undertaken by Othman and Owen (2001, 2002), for example, they have used SERVQUAL factor in testing the service quality in sharia banking. This is due to the Islamic banking industry operating under different principles and cultures compared to other service industries. Othman and Owen (2001, 2002) developed the SERVQUAL model by adding a new factor, namely sharia law compliance, to six factors called the CARTER model (Compliance, Assurance, Reliability, Tangible, Empathy and Responsiveness).

Empirical studies by Shafie et al. (2004) use the CARTER model to measure the perception of Islamic retail banking customers in Malaysia. The results obtained support the study of Othman and Owen (2002), and, in addition, the level of customer satisfaction is significant. Furthermore, Amin and Isa (2008) show that Malaysian Muslim awareness of Islamic banking products and services is high compared to non-Muslim customers, while service quality, relationship quality and overall service satisfaction are very useful in increasing the value of customers to stay and not exercise switching behavior (Bell et al., 2005; Keaveney, 1995; Liang, 2013). Socio-cultural values also affect customer perceptions about service quality (Ladhari et al., 2011; Liang, 2013). A study conducted by Malhotra et al. (2013) suggests that the quality of mobile services (M-Servqual) is an important factor in shifting customer intent to switch; if customers consider service providers to be less innovative, they tend to switch to other providers. They also said that the perception of innovation is important as the perception of service quality positively influences consumer intention to purchase more additional services without having to switch services.

2.2. Customer satisfaction

In the marketing literature, one of the key elements of market success is customer satisfaction (Chaopraseit & Elsey, 2004; Mostaghel, 2005). Customer satisfaction is the expectation of every service provider, especially the banking sector, by giving customer satisfaction as expected by the customer; hence, there is no reason for customers to leave the bank which has been chosen and they will be more loyal. Understanding of satisfaction is the desired product performance in accordance with expectations (Kotler & Keller, 2009). Solomon (1996) states that customer satisfaction is a person's feelings of pleasure or disappointment regarding the product and service after use. Chakravarty (2004) and Kasmir (2012) explained that the main objective of marketing is to build and retain customers so as to profit as much as possible; one way

to do this is by giving satisfaction to customers, because customer satisfaction is very valuable in banking. Further, Kasmir (2012) said that the benefits of satisfaction include: 1. Interaction with customers to be harmonious and generate loyalty; 2. Establishing positive word of mouth; 3. Better corporate reputation and increased profits.

Successful cooperation between customer satisfaction and loyalty in various businesses will prevent switching behavior (Morgan & Hunt, 1994; Doney & Cannon, 1997; Chakravarty et al., 2004). Some researchers (e.g., Lin & Wang, 2006; Gan et al., 2006; Ndubisi et al., 2007; Kuusik, 2007) state that customer satisfaction and loyalty have a positive relationship. Usually, highly satisfied customers will stay loyal for longer, buy more new products and products, and pay less attention to competitor brands and lower costs compared to giving new customer service as the transaction is routine. Olsen (2002) determined that there was a positive relationship between quality and satisfaction and also between satisfaction and loyalty. Further studies indicate that satisfaction plays a mediating role in the relationship between service quality and loyalty. Khatibi, Ismail, and Thyagarajan (2002) also tracked the direct and positive impact of perceived quality of service on customer satisfaction. Pollack (2009) affirms the role of service quality as a predictor of satisfaction and loyalty. Lam et al. (2004) highlight that customer loyalty is influenced not only by customer satisfaction, but also by the perceived value of services, while Manrai et al. (2007) state that service quality related to reliable staff can affect customer satisfaction so as not to affect customers to engage in switching behavior to other banks,

2.3. Customer trust

Trust is considered the main determinant and prerequisite for determining loyalty (Rechheld et al., 2000; Chaudhuri & Holbrook 2001; Berry 2002). Trust has been studied in many disciplines, such as psychology, sociology, philosophy and business (Delgado-Ballester & Munuera-Alemán, 2005). Although there are many different interpretations, beliefs can generally be described as willingness to exchange (Moorman et al., 1993). According to Gefen et al. (2003), trust is defined as a collection of beliefs, especially with respect to honesty in keeping promises, concerns and motivations, abilities and being predictable (consistent). Furthermore, Kertajaya and Sakir Sula (2006) stated that honesty, fairness, ethics and morals in a business become mandatory in maintaining loyal customers. Despite the growth of sharia banks, there is still purity of products offered as well as the sincerity of the institution's performance (Haniffa & Hudaib, 2007). In addition, sharia banking has a relatively negative image

from the point of view of ease and quality of products is still low compared with conventional banking (Karim & Affif, 2005).

Reichheld and Schefter (2000) and Harris and Goode (2004) argue that, to gain customer loyalty, the main factor to consider is trust. Therefore, trust is a very important asset in the business world, especially in the banking industry, including sharia banks. Trust is also seen as a key element in shaping customer relationships and maintaining the company's market share (Graf & Perrien, 2005). In addition, trust will also be a critical determinant of the success or failure of company (Shalhaib, 2006). Previous empirical studies have shown that trust has a positive influence on customer loyalty (Chiou, 2003; Harris & Goode, 2004; Lin & Wang, 2006; Ndubisi et al., 2007; Kuusik, 2007). Chun-Nan Lin et al. (2017) suggest that perceptual variables on value, quality and social value have a significant effect on the switching intention, as well as confidence variables which influence switching intention.

2.4. Customer loyalty

Since the financial crisis in 1997, the development of banking institutions in Indonesia has changed very rapidly, namely no longer every year, but every month. This situation also applies to the development of sharia banking. This change will create a tight competition among banking institutions in Indonesia in increasing their business activities. Therefore, maintaining customer loyalty is very important for banking institutions because it has a positive effect on long-term benefits (Ribbick et al., 2004). In addition, maintaining customer loyalty can create competitive advantage, acquire market share and corporate success (Rahman, 2005; Subkhan, 2005; Durkin, 2005; Jaiswal & Niraj, 2007). The benefits of customer loyalty will economically improve productivity, higher profits and lower labor turnover (Durkin, 2005). Likewise, customer loyalty can reduce the cost of business operations including the cost of maintaining customers, marketing, distribution and logistics costs between five to sixfold (Ndubisi et al., 2007; Kassim & Souiden, 2007; Hsieh & Li, 2008).

Among the various views on customer loyalty, Kartajaya (2008) holds that loyal bank customers are customers who are keen and volunteer to suggest products to others, while Frans (2008) states that loyal customers are customers who are satisfied with the quality provided by the bank. According to Subkhan (2005), customer loyalty in banking institutions can be measured by a comprehensive approach, that is, there are four significant factors between them, satisfaction, repeated transactions,

displacement and intent, while the term loyalty, according to the Islamic perspective (Al-Qahthani, 2005), is support, defense, love, glorification, respect and being together with loved ones. Therefore, loyalty, according to the Islamic perspective, emphasizes on love and defense and can be classified on several measurements: obedience, respect, closeness, love and defense (Yasmin, 2001; Al-Qahthani, 2005).

2.5. Switching intention

Switching intention behavior is caused by customer dissatisfaction with the desired expectation. Switching behavior is greatly avoided by service companies, especially banks, because it affects the market share, loses the opportunity to gain profits in the long term and creates a negative word of mouth for the bank (Manrai, 2007). Understanding switching behavior, according to Gerrard et al. (2004), is a condition of issues that affect a person to make a switch decision. According to Clemes et al. (2010), switching behavior is the behavior of customers leaving one service provider to move to another service provider.

Colgate and Hedge (2001) provide empirical evidence of research in Australia and New Zealand, clarifying three issues for switching banks into three problems, namely, service failure, pricing and denied services. The results show that price issues have the most important impact on switching behavior. Chakravarty et al. (2004) examine the role of relationships between individuals and banks in determining switching behavior. The aspect of economic relations with various dimensions of service quality serve collectively as a determinant of individual tendencies for bank switches. Research by Chakravarty et al. (2004) underscores the importance of strong relationships in keeping loyal customers and reducing switching behavior.

Studies conducted by Al-Kwafi et al. (2015) to account holders in Spain show a significant direct relationship between switching intention and behavior beliefs, normative beliefs, attitudes and subjective norms. Gerrard et al. (2004) identifies the types of incidents that cause consumers to switch to bank services, weighting each occurrence on switching decisions, whether single or multiple incidents, as influence on transfer decisions, and the extent to which the switches explain the problems they face prior to exit. Bank transition is strongly influenced by three types of incidents: service failure, price and inconvenience, with price fixing becoming more influential. Lin et al. (2017) suggest that perceptual variables on value, quality and social value have a significant effect on the switching intention, as well as trust variables that influence switching intention.

This research is an explanatory research that explains the relationship of several confirmatory factors that affect customer intention to switch to a conventional bank. Based on the relevant problems, phenomena and previous empirical studies, the researcher seeks to build a conceptual framework of the research model and the hypothesis formulation as follows:

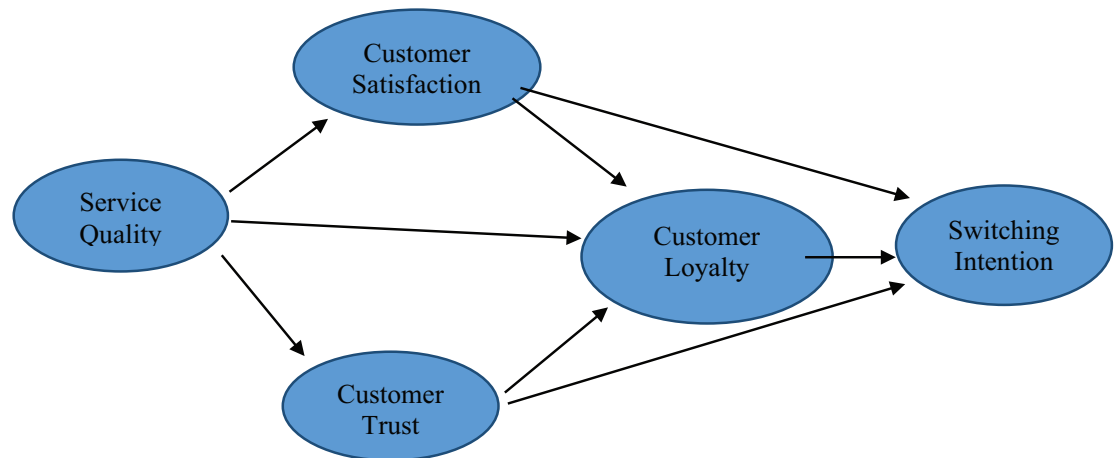


Figure 1

2.6. Hypothesis formulation

- H1: Service quality significantly affects customer loyalty through customer satisfaction and trust.
- H2: The lower the level of satisfaction, trust and customer loyalty, the higher will be the customers' intention to switch.
- H3: The stronger the customer loyalty is mediated by customer satisfaction and trust, the lower the customer's intention to switch.

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