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Customers' Switching Behavior in Commercial Banks of Afghanistan (A Case Study of Kabul City)

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ABSTRACT

Banking system is the backbone of the modern economy in a country and banks provide necessary or potential services to customers based on their needs and the banks' marketers, practitioners or managers cannot underestimate the negative consequences of customers' disloyalty, dissatisfaction and more important the customer switching behavior. Since there is the lack of academic research or it is not available at all to address the customers' switching behavior in the banking industry of Afghanistan, this study intends to examine and address the factors affect the customer switching behavior in the commercial banks Kabul city, Afghanistan. The objective of this study is to identify the role of price, reputation, advertisement, distance and switching costs on the behavior of commercial banks' customers. This study employed a quantitative approach and it was conducted among 398 respondents who were customers of 12 commercial banks based in Kabul-Afghanistan. The data was collected through provided questionnaires and the findings indicate that reputation, advertisement, distance, and switching costs significantly influence switching behavior. On the other hand, it showed that price is not a significant factor to affect switching banks. Also, the findings showed that four main factors including unfavorable reputations, effective advertising competitions, unfavorable perception of distance and low switching costs had positive relationship with customers' switching behavior. The study suggests that banks should try to increase effective barriers on switching behavior to prevent customers from switching through their increased dependency, expand their face to face and online activities and provide extra benefits. In addition, this study suggests that marketers and practitioners should use mixed communication and promotion tools in order to build a good relationship between banks and customers.

Keywords- Commercial Banks, Customer, Switching Behavior, Kabul.

I. INTRODUCTION

The banking system forms the backbone of a modern economy. According to United Nations Development Programme (2021), the total assets of Afghan's banks to the GDP was approximately 22 percent at the end of 2020. With the intense competition and globalization in the financial markets, understanding the factors affecting customers' switching behavior has become a critical strategy for financial institutions especially for banking industry. According to Griddin (1995), the acquiring cost of a new customer is five times greater than the costs of retaining the existing customer. Reichheld and Sasser (1990) came to this conclusion that a five percent decrease in customer losing rate results in a firm's income increase with 25 percent. Therefore, understanding the factors that affect customer switching behavior is a crucial matter particularly for commercial banks. This is important to identify the determinants that influence customers' choice to stay or to switch. Switching behavior is defined as defection or customer exit. Switching behavior reflects the decision that a customer makes to stop purchasing a particular service or patronizing the service firm completely. In the banking industry,

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customer switching behavior means customer's shift from one bank to another (Gajdhane, 2015).

Various studies have been examined the switching behavior, and find out the factors affecting customer switching behavior (e.g. Nyarko, 2015; Kordnaeij et al, 2016; Zhang, 2009, and Gajdhane, 2015). Zhang (2009), find out the factors affecting the customers' switching behavior such as switching costs, price, service quality, distance, reputation, effective advertising competition and involuntary switching. Furthermore, found that switching cost is the most effective factor and involuntary switching is the less factor that influence customer switching behavior. Gajdhane (2015), reveal that from eight factors affecting customer switching behavior including price, service quality, reputation, advertisement, distance, involuntary, switching cost, and demography factor, the price is the most and demographic is the less influential factor to banks switching.

According to previous researches, this study selected five factors consisting price, reputation, advertisement, distance and switching costs as the main influencer factors of customer switching behavior. And aims to investigate the impact of price, reputation, advertisement, distance and switching costs on the customer's intention to switch or stay in the commercial banks of Afghanistan in Kabul city.

II. LITERATURE REVIEW

Pirzada et al. (2014) reveal that profit or interest rates, quality of service, religious belief, advertising, and number of branches are the most influential factors affecting customer's attitude and behavior in Pakistan. Subramaniam & Ramachandran (2020) show that service quality, reputation, advertisement, involuntary actions, switching cost, distance and price are the most determinant factors that influence customer switching behavior in Malaysia. Four factors, such as high transaction fee, attractiveness of alternatives, inconvenience of bank location, and inability to respond to system failure quickly were statistically significant in the prediction of customer switching with a predicted switching rate of 82.29% in Ghana Commercial bank (Nyarko, 2015). Tram, Van, & Ha (2021), indicate that there is a relationship between five determinants (service fees, subjective norms, alternative attractiveness, satisfaction and trust) of customer switching behavior toward banking service provider in Hanoi Veitnam. Sani (2022), categorized the factors in seven push factors with thirteen sub factors, four pull factors with ten sub factors, and six mooring factors with three sub factors, which were influencing in customer switching behavior in the retail banking sector in Nigeria and Gambia. Findings of Nzowa (2021), shows that subjective norms are more important in determining customer switching behavior in commercial banks of Dar Es Salaam. Furthermore the control of banks charges, service quality and convenience affect customer switching behavior. The findings of Dissanayake (2016), demonstrate there is a negative relationship between service quality, fair price and bank commitment with customer switching behavior, and also indicated a positive relationship between anger incidents and switching behavior. Product quality can enhance the customer satisfaction, and service quality and Shariah Compliance are effective in customer satisfaction and in mitigating the customer switching behavior (Mochlasin et al. 2023). Siswanto, Asnawi & Safitri (2020) reveal that internet banking, employee friendliness and Shariah compliance are the factors that affecting customer switching behavior in Indonesia. Bugyei (2019), shows there is a significant relationship between customer switching behavior and the predictors such as price, advertising, reputation, distance, switching cost and innovative products offered by banks. Furthermore indicated that customer generally demonstrate high sensitivity to distance, reputation, advertising, innovative products, high fees and interest in Cape Coast Metropolis, Ghana. There is a significant negative relationship and impact, between customer satisfaction, trust and loyalty with customer switching intention, and also revealed by increasing switching barriers such as switching cost and lack of suitable replacement customer less tends to switch their current bank according to Kordnaeij et al. (2016) in Tehran, Iran. Mittal et al (2023), reveal the high transaction fees and costs, the less to staying with current bank. The more convenience, the high service quality, the more new product offerings, and high level of trust, caused to less intention to switch. The high level of trust and reputation of bank in the competitive banking industries the more intentions to staying with current bank and showing their loyalty. The study which was done by Zulfitri, Surachman & Rohman (2018), reveal that factors such as, price perception, service quality, variation seeking behavior, and electronic banking significantly influence switching behavior of banking customers in DKI Jakarta province. They also found that duration of relationship strengths the influence of mentioned factors on customer switching behavior as moderation variable. Lastly, the Gajdhane (2015), indicates the service quality is the most important factor, and then, price, switching costs, distance, advertising and involuntary factors affect customer switching behavior respectively in Solapur city, India.

Therefore, customers are known to switch between banks after they face, experience or feel multiple problems. Moreover, customers are not legally limited to the same bank forever. Thereby, banks can use from favorable perception of price, good reputation, effective advertising, distance, and switching costs in order to retain their current customer for a longer period of time and attract the potential customer.

Price: price in banking industry refers to fees implementation, bank charges, interest on loans, interest for saving account and deposits. Price is consideration of what one pays for the benefit or service he gets from another (Gajdhane, 2015). Price may include the benefit also.

Reputation: according to Clemes et al., (2007) reputation depended on three elements, namely the reliability of banks, trust worthiness of the bank, and the financial stability of the bank. The coefficient value for reputation revealed that, a bank with bad reputation led to the tendency of bank switching by customers. Furthermore, the study by Abdullah (2007), indicated that reputation was one of the factors that affected customer's switching behavior in Malaysian Islamic banking sector.

Advertisement: advertising is an important tool to the banks in the competitive market, and it seems to be the most popular way of marketing. Advertising is defined as promoting the products or services of a brand or company for the purpose of letting the consumers know the existence of it. Therefore, in the era of mature and intense competitive pressures, effective advertising can expand the communication channel between banks and customers which enhances the chance of success (Zhang, 2009).

Distance: location is a crucial factor that could determine the bank switching behavior. People may prefer to select the nearest branch of a bank from their either residential place or work place (Kisser, 2002). Convenient location is the one of the important factors that influences the bank selection decision.

Switching Costs: The concept of switching costs was initially introduced by Porter in 1980. Switching costs according to Burnham, Frels, & Mahajan (2003), the switching costs can be the onetime costs that a customer undertakes when switch from service provider to another. Burnham et al (2003), specified that switching costs is not only incurred promptly upon switching and nor they are limited to objective or economic costs. This prospect supported by Shiu, Zhou & Liu (2010) who assert that switching costs can be physical, emotional and time and they further added, when customers shift to competitors, they most lose energy, time and money. Jones, Mothersbaugh, & Beatty (2002), explained the subject factor from this view that switching costs can be thought as an obstacles that hold customers in service relationship.

This study addressed this gap that there is no or limited published research on the factors affect customers' switching behavior in the commercial banks of Kabul city. Therefore, based on the reviewed studies, the present study with the main objective (to identify and measure the factors affect customers' switching behavior in commercial banks) aims to test the following hypotheses.

H1: There is a positive relationship between an unfavorable perception of price and customers' switching banks.

H2: There is a positive relationship between unfavorable bank reputation and customers' switching banks.

H3: There is a positive relationship between effective advertising competition and customers' switching banks.

H4: There is a positive relationship between unfavorable perception of distance and customers' switching banks.

H5: There is a positive relationship between low switching costs and customers' switching banks.

III. RESEARCH METHODOLOGY

This study employed a quantitative research methodology to analyze and identity the factors affect customers' switching behavior in the commercial banks of Kabul city. In order to collect the research data, a total 500 questionnaires were distributed, and 450 questionnaires were received. The responses of 52 participants were eliminated as they were incomplete and not suitable for this study. This resulted in 398 completed usable questionnaires generating an 88.45% useable response rate. The usable responses in this study meet the sample size which the Sekaran (2003) and Crouch's (1984) are considered to be the appropriate sample size for the most behavioral research (i.e., between 300 to 500). This sample size was chosen to ensure statistical validity and representativeness of the target population. A convenient sampling technique was employed to ensure that the data accurately reflects the varied perspectives of banks' customers. The data were analyzed using SPSS. Descriptive statistics were employed to summarize the sample's demographic characteristics. Reliability was tested using Cronbach's alpha to ensure internal consistency, while validity testing ensured the accuracy and relevance of the constructs being measured. For research objectives, exploratory factor analysis and sensitivity analysis were used or performed to satisfy research objectives. A logistic regression analysis was conducted to test the research hypotheses.

This methodology provided a robust and systematic approach to investigate the complex relationship between customers' switching behavior and predictors such as; price, reputation, advertisement, distance, and switching costs in the customers of commercial banks in Kabul city.

IV. RESULTS

4.1 Descriptive statistics

The data in Table (1) shows the descriptive statistics for the respondents who switched banks and those who did not switch banks. From the 398 useable questionnaires, 36.9% (147) of the respondents switched banks during the last three years, while 63.1% (251) of the respondents did not switch banks. The sample respondents consisted of 77.4% males and 22.6% females. The dominant groups were aged between 26 to 35 years (60.6%) and 36 to 45 years (18.1%). The majority of the respondents had a Bachelor Degree (62.1%) and Postgraduate Degree (17.1%). In terms of

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occupation, the dominant groups were the respondents who worked as and Professional (41%), Civil Servant (17.1%) & Self-Employed (13.3%). In addition, the major income levels of respondents were between AFN 10,000 – 20,000 (47.2%) and AFN 20,001 – 30,000 (24,4%).

Table 1: Descriptive Statistic of Demographic Characteristics

Variable		Non-Switching Banks		Switching Banks		Total Respondents	
		Frequency	**%**	**Frequency**	**%**	**Frequency**	**%**
Gender	Male	201	80.1	107	72.8	308	77.4
	Female	50	19.9	40	27.2	90	22.6
	Total	**251**	**100.0**	**147**	**100.0**	**398**	**100.0**
Age	18-25	32	12.7	27	18.4	59	14.8
	26-35	156	62.2	85	57.8	241	60.6
	36-45	48	19.1	24	16.3	72	18.1
	46-55	7	2.8	5	3.4	12	3.0
	56-65	6	2.4	3	2.0	9	2.3
	66+	2	0.8	3	2.0	5	1.3
	Total	**251**	**100.0**	**147**	**100.0**	**398**	**100.0**
Education	Primary	3	1.2	2	1.4	5	1.3
	M-School Education	9	3.6	10	6.8	19	4.8
	H-School Education	21	8.4	8	5.4	29	7.3
	Diploma / Certification	15	6.0	8	5.4	23	5.8
	Bachelor's Degree	157	62.5	90	61.2	247	62.1
	Postgraduate Degree	40	15.9	28	19.0	68	17.1
	Other	6	2.4	1	0.7	7	1.8
	Total	**251**	**100.0**	**147**	**100.0**	**398**	**100.0**
Occupation	Professional	111	44.2	52	35.4	163	41.0
	Self-employed	30	12.0	23	15.6	53	13.3
	Student	18	7.2	13	8.8	31	7.8
	Civil Servant	42	16.7	26	17.7	68	17.1
	Laborer	7	2.8	4	2.7	11	2.8
	Unemployed	1	0.4	1	0.7	2	0.5
	Retired	1	0.4	2	1.4	3	0.8
	Sales/Service	18	7.2	11	7.5	29	7.3
	Home Maker	1	0.4	15	10.2	16	4.0
	Other	22	8.8			22	5.5
	Total	**251**	**100.0**	**147**	**100.0**	**398**	**100.0**
Income	10,000-20,000	114	45.4	74	50.3	188	47.2
	20,001-30,000	66	26.3	31	21.1	97	24.4
	30,001-40,000	28	11.2	12	8.2	40	10.1
	40,001-50,000	17	6.8	11	7.5	28	7.0
	50,001-60,000	7	2.8	4	2.7	11	2.8
	60,001-70,000	6	2.4	4	2.7	10	2.5
	70,001+	13	5.2	11	7.5	24	6.0
	Total	**251**	**100.0**	**147**	**100.0**	**398**	**100.0**

Note: Primary Data, Processed with SPSS

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Table 2: indicate the value of KMO is 0.91, which means that the sample size for Factor Analysis is adequate, and the "Bartlett‟s Test of Sphericity" is also significant. The correlation matrix also showed that most of correlations were above .30. Above .30 correlations are recommend for factor analysis by Hair el al (2006).

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.91
Bartlett's Test of Sphericity	Approx. Chi-Square	4547.73
	Df	406.00
	Sig.	0.00

Note: Primary Data, Processed with SPSS

Results of the latent root criterion reveal that five factors were extracted from the 21 variables submitted for factor analysis (see Table 1). These five factors explained 58.4% of the variation in the data.

Table 3: Factor Extraction

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.281	29.909	29.909	6.281	29.909	29.909
2	2.008	9.560	39.470	2.008	9.560	39.470
3	1.452	6.913	46.382	1.452	6.913	46.382
4	1.334	6.351	52.733	1.334	6.351	52.733
5	1.186	5.646	58.379	1.186	5.646	58.379
6	0.998	4.750	63.129			
7	0.825	3.928	67.057			
8	0.775	3.691	70.748			
9	0.667	3.176	73.925			
10	0.627	2.984	76.909			
11	0.584	2.781	79.689			
12	0.545	2.597	82.286			
13	0.506	2.411	84.697			
14	0.493	2.349	87.046			
15	0.459	2.188	89.234			
16	0.450	2.142	91.376			
17	0.420	2.001	93.377			
18	0.409	1.949	95.326			
19	0.370	1.763	97.089			
20	0.333	1.584	98.673			
21	0.279	1.327	100.000			
Extraction Method: Principal Component Analysis.						

Note: Primary Data, Processed with SPSS

4.2 Content Validity

According to Hair et al. (2006) the content validity subjectively assesses the relativeness or correspondence between the individual items and the concept. The results (see Table 4) shows that all of the factors had significant loading above ±.50. However, one variable (Price-4) were excluded from the factor structure. So, it was concluded that the items revealed adequate content validity.

Table 4: Rotated Component Matrix with VARIMAX Rotation

	Component				
	1	2	3	4	5
RQ3	0.852				
RQ2	0.804				
RQ4	0.763				
RQ1	0.700				
RQ5	0.673				
SCQ3		0.7063			
SCQ1		0.6967			
SCQ2		0.6951			
SCQ4		0.6708			
SCQ5		0.5696			
AQ2			0.773		
AQ3			0.692		
AQ1			0.690		
AQ4			0.641		
DQ1				0.7686	
DQ2				0.7157	
DQ3				0.7124	
PQ3					0.830
PQ2					0.746
PQ1					0.583
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 7 iterations.					

Note: Primary Data, Processed with SPSS

4.3 Reliability

All the variables except (Price-4) were subjected to reliability tests. The Cronach's Coefficient Alpha was used to test the reliability of each factor. In this study, all of the factors have a Cronach's Coefficient Alphas value greater than 0.60, as suggested by Churchill (1979) for exploratory research (See table 5).

Table 5: The Reliability Test for Switching Behavior

Constructs	Items	Cronbach's Alpha
Price	1. The bank charged low fees. 2. The bank charges low interest for loans. 3. The bank charges low interest for mortgages.	0.671
Reputation	1. The bank's online system is reliable. 2. The bank is trustworthy. 3. The bank is financially stable. 4. My bank account is administrated accurately. 5. The bank provides services as promised.	0.868
Advertisement	1. The competing bank's advertising content did not encourage me to	0.773

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	switch banks. 2. The signs or the billboards of the competing bank did not encourage me to switch bank. 3. The design of the competing bank's card did not encourage me to switch bank. 4. The promotion activity of the competing bank did not influenced my decision to switch banks (e.g. attractive free gifts).	
Distance	1. The bank branch location is conveniently close to my Home. 2. The bank branch locations is conveniently close to my work place. 3. The bank branch locations is conveniently close to malls or business centers.	0.734
Switching Cost	1. It will take me too much time switch to a new bank. 2. It will cost me too much to switch to a new bank. 3. It will take me a long time to become familiar with a new bank's policies. 4. It will take me too much time to fill out forms to switch to banks. 5. I am not sure that I can receive any benefits if I switch to a new bank.	0.753

Note: Primary Data, Processed with SPSS

The result (see Table 6) showed that the correlations were all below 0.5, indicating no multicollinearity problems existed in the regression models used in this research.

Table 6: Pearson Correlations

		Price	Reputation	Advertisement	Distance	Switching Costs
Price	Pearson Correlation	1	.412**	.328**	.291**	.268**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
	N	398	398	398	398	398
Reputation	Pearson Correlation	.412**	1	.491**	.422**	.314**
	Sig. (2-tailed)	0.000		0.000	0.000	0.000
	N	398	398	398	398	398
Advertisement	Pearson Correlation	.328**	.491**	1	.459**	.448**
	Sig. (2-tailed)	0.000	0.000		0.000	0.000
	N	398	398	398	398	398
Distance	Pearson Correlation	.291**	.422**	.459**	1	.410**
	Sig. (2-tailed)	0.000	0.000	0.000		0.000
	N	398	398	398	398	398
Switching Costs	Pearson Correlation	.268**	.314**	.448**	.410**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	398	398	398	398	398
**. Correlation is significant at the 0.01 level (2-tailed).						

Note: Primary Data, Processed with SPSS

4.4 Results Pertaining to Main Research Objective (Hypotheses)

Main Research Objective is to identify and measure the factors affecting customers' switching behavior in commercial banks. Logistic regression analysis was used to satisfy Main Research Objective. The Table (7) showed the logistic regression results. All predicted influencing factors except price are statistically significant at p value (0.05).

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Table 7: Result of Binary Logistic Regression

	B	S.E.	Wald	df	Sig.	Exp(B)
Price	0.039	0.181	0.046	1	0.830	1.040
Reputation	0.626	0.144	19.041	1	0.000	1.871
Advertisement	0.393	0.168	5.461	1	0.019	1.482
Distance	0.324	0.144	5.078	1	0.024	1.383
Switching Cost	0.921	0.181	25.929	1	0.000	2.513
Constant	-6.712	0.844	63.299	1	0.000	0.001
a. Variable(s) entered on step 1: Price, Reputation, Advertisement, Distance, Switching Costs.						

Note: Primary Data, Processed with SPSS

4.5 Hypotheses Testing

Consequently, Hypotheses 1 to 5 are summarized in the following table

Hypotheses	Supported	Non Supported
H1: There is a positive relationship between an unfavorable perception of price and customers' switching banks.		√
H2: There is a positive relationship between unfavorable bank reputation and customers' switching banks.	√	
H3: There is a positive relationship between effective advertising competition and customers' switching banks.	√	
H4: There is a positive relationship between unfavorable perception of distance and customers' switching banks.	√	
H5: There is a positive relationship between low switching costs and customers' switching banks.	√	

The result of logistic regression indicated price is not significant due to Sig level is 0.830, greater than p value (0.05). The coefficient value for reputation, advertisement, distance, and switching costs are significant at p value (0.05), level of significance. Thus, the reputation, advertisement, distance, and swathing costs are all significant and positively influence customers to switch banks. The result table of logistic regression shows that there is no significant relationship between price and bank's switching, thereby the hypothesis 1 was not supported. Hypotheses 2, 3, 4, and 5 proposed that positive relationship exist between customers' switching behavior and impact factors: unfavorable bank reputation, effective advertising competition, unfavorable perception of distance, and low switching costs. Therefore, the hypotheses 2, 3, 4, and 5 were supported.

4.6 Marginal Effects of Customers' Switching Behavior

According to Liao (1994), marginal effect shows the marginal change in the dependent variable, given a unit change in an independent variable, holding all other variables constant. The five affecting factors derived from the factor analysis and the logistic regression model are ranked as follows:

Table 8: Marginal Effects of Customers' Switching Behavior

Factors	Marginal Effect	Ranking
Switching Cost	0.14515904	1
Reputation	0.09866401	2
Advertisement	0.06194083	3
Distance	0.05106572	4
Price	0.0061468	5

Note: Primary Data, Processed with SPSS

The table of marginal effects shows that switching costs has the maximum impact on customers' switching behavior, a unit increase in switching costs results in a 14.5% probability that a customer will switch banks. Reputation has the second highest impact on customers' bank switching behavior, a unit increase in the reputation factor results in a 9.8% probability of customers' switching banks. The third most important factor affecting customers to switch banks is advertisement. The marginal changes in the probability for advertisement demonstrates that a unit increase in the advertisement score results in a 6.2% probability that customers will switch banks. Similarly, a unit increase in the distance factor results in a 5.1% probability of customers' switching banks. The table of marginal effect is also indicates that the impact of price is less than 1%.

V. CONCLUSION

This study investigated the factors affecting customers switching behavior in commercial banks in Kabul city. The findings of this study indicate that research objective was satisfied as the factors that influence customer's switching behavior in the commercial banks of Kabul City. The result of the logistic regression analysis revealed that there was no significantly relationship between customers' switching behavior and the influencing factor (price). Therefore, Hypotheses 1 was not supported. Findings also indicated that there are significantly positive relationship between customers' switching behavior and the influencing factors: Unfavorable Bank Reputation, Effective Advertising Competition, Favorable Perception of Distance and Low Switching Costs. Therefore, Hypotheses 2, 3, 4, and 5 were supported. The results of this study show that a unit increase in switching costs, reputation, advertisement, distance, and price results in a 14.5%, 9.8%, 6.9%, 5,1%, and 0.61% probability that a customer will switch banks respectively. Furthermore, the logistic regression analysis of this study indicate, that there are some other factors that affecting customer switching behavior which were not included in the study.

MANAGERIAL IMPLICATIONS

This study provide important information both a theoretical and practical perspective. Considering the research findings, indicating a positive and significant impact of influential factors (Unfavorable Bank Reputation, Effective Advertising Competition, Favorable Perception of Distance and Low Switching Costs) on customer switching behavior, and no significant relationship of price on customer switching behavior. This study offers valuable insights for marketers, practitioners, and managers of commercial banks in Kabul city in order to develop and improve strategies to retain their customer satisfied for a long period of time. Furthermore, they can attract new potential customers. It highlights how vital it is to figure out factors affecting customer's switching behavior. To leverage the positive impact of predictors, managers in the commercial banks need to establish clear and comprehensive strategies that define, addresses, and fulfill the customers' needs and wants. It is also recommend, that commercial banks should try to increase the effective switching behavior barriers in order to prevent customers from switching through increase dependency of customer, expand their activities both face to face and online, providing extra benefit, and use from mixed communication and promotion tools.

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