

The Mediating Effects of Switching Costs on the Relationship between Service Quality, Customer Satisfaction and Customer Loyalty: A Study in Retail Banking Industry in Vietnam

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Abstract –This paper develops and empirically tests the mediating role of switching costs in service quality - loyalty and satisfaction-loyalty relationships. Specially, different types of switching costs are tested separately providing more insights about their roles. This approach extended the insights on mediating effects of switching costs by differentiate the roles of positive switching costs and negative switching costs in the model. A research model about the interrelationships between service quality, customer satisfaction, switching costs and customer loyalty is developed. Based on this model, a survey is conducted with retail banking customers, with and 261 valid respondents. The hypotheses are then proposed and tested using Structural equation modeling technique (SEM). The analysis reveals that: positive switching cost is a significant mediator for both service quality-loyalty and satisfaction-loyalty relationships, while negative switching cost only mediates the service quality-loyalty relationship. These findings suggest that building and managing switching costs are necessary following-up steps after customer satisfaction for achieving long-term customer loyalty. However, using the right types of switching costs is necessary to significantly boost the loyalty from customers.

Keywords- *Customer satisfaction, customer loyalty, mediating effect, positive switching costs, negative switching cost.*

1. Introduction

Customer loyalty has been considered as one of the most important competitive edges in today business environment in which purchasing power of customer is increasing while companies have to encounter limitless challenges from their competitors [1]. Therefore, for cost reduction and profit improvement reasons, maintaining long-term customer loyalty is a mandatory task. Customer loyalty can be defined as the closest step to the repurchase behavior of customer. Satisfaction can serve as a good

foundation for loyalty but achieving only satisfaction is not enough [2]. According to [3] the shift to loyalty strategy from only satisfaction strategy can substantially increase customer retention and reduce marketing cost.

In recent studies, switching costs has been considered as a new approach to the satisfaction-loyalty relationship. Specifically, switching costs are proven to have the mediating ability to transfer satisfaction into loyalty [4], [5]. Therefore, in this study, switching costs and its mediating effects in the relationship between the customer satisfaction and customer loyalty is main subject of investigation. Next, the main literature reviews about the main concepts in the study are covered. Then the methodology part is discussed. Analysis and discussion part cover the main findings of the study. Finally, the conclusion is presented.

2. Literature Review

Studies in the field of relationship marketing literatures have demonstrated that service quality, customer satisfaction are the most popular determinants of customer loyalty [3], [6]. Although there is a consensus among researchers that satisfaction can be a basis for loyalty, researchers also agree that the satisfaction-loyalty relationship should have more ingredients. Trust, commitment, and relationship quality are constructs which usually considered as the mediators for the satisfaction-loyalty relationship [7], [8].

Customers need real experiences with the service providers in order to evaluate the quality of provided service. Therefore, when changing service provider,

customers may perceive considerable functional risk, especially in service. This risk is defined as the customer's perceived risk and considered as the foundation for switching cost. In other words, switching cost are defined as the cost of changing service providers or the sacrifices and penalties consumers may have to experience when changing to other alternatives [9]. Studies about switching cost suggest that it may have three main components: procedural, relational, and financial [10]. Procedural switching cost refers to the time, effort and hassle customers expect to have when switching to other alternatives. Relational costs or social costs are related to the potential loss of interpersonal relationship with the current service providers or its employees. Financial costs are the costs related to the potential loss of special discounts and monetary benefits when customer changes their service provider [9].

2.1. Problem Statement

Switching cost is usually viewed as a moderator in the relationship between customer satisfaction and customer loyalty [11], [12]. However, the mediating role of switching costs is usually overlooked in marketing literature. This issue requires a more holistic view about the role of switching costs by providing more empirical evidences about the mediating roles of switching costs. In addition, the question about the roles of different type of switching costs also should be investigated.

2.2. Aim of the research and hypotheses

This study attempts to clarify the mediating effects of switching costs in the new approach by classifying switching cost as negative switching cost and positive switching cost. Social and lost benefits cost are likely to be associated with positive value incensement; in the other hand, procedural switching cost are likely to be described as "binding element" and related to negative feeling from customer [13]. In this study, relational and financial switching costs are grouped to form the positive switching cost. On the other hand, procedural switching cost is referred as negative switching cost. Then following hypotheses are tested:

H1: In banking industry context, positive switching cost mediates the relationship between service quality and customer loyalty.

H2: In banking industry context, positive switching cost mediates the relationship between overall service quality and customer loyalty.

H3: In banking industry context, negative switching cost mediates the relationship between service quality and customer loyalty.

H4: In banking industry context, negative switching cost mediates the relationship between customer satisfaction and customer loyalty.

3. Method of Research

3.1. Instruments

For this study, the measurement scales and the indicators are adopted from previous studies. In general, the respondents are asked to give their agreement or disagreement with the statement. Respondents give their opinion for each statement through 7-point Likert scale with 1 to indicate "strongly disagree" and 7 to indicate "strongly agree". Four items for measuring overall service quality construct adopted from [14] are used. Three items which are adopted from [15] are used to measure the overall customer satisfaction. There items are used to measure the customer loyalty including 1 item about the word-of-mouth intention and 2 items about repurchase intention. These three items are also adopted from [15]. The 3 items are adopted from [16] to measure the relational/social benefit and 2 items are adopted from [9] to measures the potential financial/lost benefit. The procedural switching costs which are considered as negative switching cost are measured by 3 items adopted from [16].

3.2. Data Collection and Analytic technique

A questionnaire is developed by the author for collection data from retail banking customers in Vietnam. Retail banking customers have to use at least one service from one bank in Vietnam. The sample of retail banking customers was collected on the basis of convenience sampling. Emails with a survey instrument were sent by author to a total 850 customers of 11 retail banks in Vietnam. There were 273 customers participated in the research. Among responds returned, there were 12 responses were eliminated because of uncompleted answers. Finally, there are usable 261 responses were collected and used, which make 30% successful response rate.

The proposed mediating relationships between overall service quality, customer satisfaction, switching cost and customer loyalty are depicted in Figure 1 and tested by structure equation modeling using Amos 22.0. The confirmatory factor analysis (CFA), reliability and validity analysis are performed to assess the adequacy of the measurement model. Then, the structural model is tested to assess the proposed relationships for the mediating effects of service quality, customer satisfaction and switching costs.

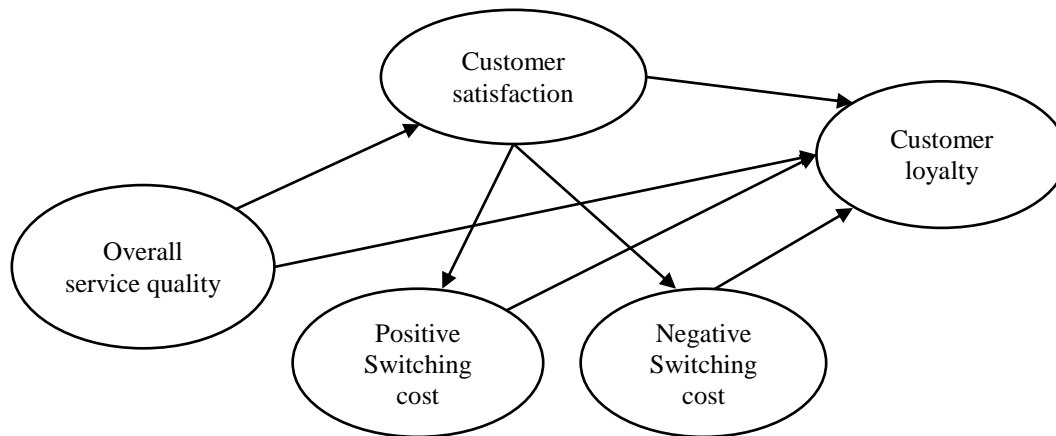


Figure 1. Research model. Source: own research

4. Analysis and Discussion

4.1. Testing the measurement model

CFA is executed to see how the research model fits with the data collected from the samples. Set of Goodness of fit are used to assess the fit. Specifically, the Chi-square is significant $\chi^2 = 228.3$ ($p = 0.00$) and the relative Chi-square ($\chi^2/df = 1.65$) (smaller than 2) show the acceptable fit with large data analysis. Other indices show the good fit for the research model. The normed fit index (NFI) = 0.952, the comparative fit index (CFI) = 0.980, the Tucker-Lewis coefficient index (TLI) = 0.975 (NFI, CFI, TLI all > 0.95); the root mean square residual (RMR) = 0.072 and root mean square error of approximation (RMSEA) = 0.050 (both < 0.08). In sum, the data collected from the sample of retail banking customers are fit well with the proposed research model.

4.1.1. Constructs reliability and validity

Construct reliability refers to the degree to which a set of indicators consistently and stability reflect a given constructs. Cronbach's alpha is the most commonly used for assessing the reliability of a construct. The Cronbach's alpha of each construct in the research model is presented in Table 1. As indicated in Table 1, all the Cronbach's alpha for all constructs exceeds 0.80, satisfying the general recommended level of 0.70 for the research indicators [17].

Convergent validity can be assessed by examining the factor loading and the average variance extracted (AVE) of the constructs [18]. All the indicators have significant loading onto the constructs which they expected to measure ($p < 0.01$). Moreover, as presented in Table 2, the AVE for each construct is greater than 0.50, which indicate the convergence validity of the constructs

Table 1. Reliability and Validity. Source: Own research.

Constructs	Cronbach's alpha	AVE
Service Quality (SQ)	0.940	0.604
Service Value (SV)	0.919	0.745
Customer satisfaction (CS)	0.923	0.802
Positive Switching cost (PSC)	0.933	0.728
Negative Switching cost (NSC)	0.883	0.717
Customer loyalty (CL)	0.934	0.828

4.2. Testing mediating role

Path analysis of structural equation modeling is used to test the hypotheses about the relationship between service quality, customer satisfaction, customer loyalty and switching cost. The path analyses of the research model are executed to investigate the impacts of switching costs on customer loyalty. The model fit indices for the research model also show the good fit ($\chi^2= 241.66$, $p\text{-value} = 0.000$, $\chi^2/df = 1.764$; $NFI = 0.949$; $CFI = 0.977$; $RMR = 0.123$; $RMSEA = 0.054$). According to the results in Table 2, both negative switching costs and positive switching cost positively influence customer loyalty. Although, negative switching cost has positive impacts on customer loyalty, there is not statistical significant

relationship between it and customer satisfaction. Therefore, the mediation effect of negative switching cost on the satisfaction-loyalty relationship is not supported (Hypothesis H4).

The bootstrapping approach is also used to test the mediation effect of switching costs. As shown in Table 3, the bootstrapping results support the mediating role of positive switching costs (Hypotheses H1 and H2) and also the mediating role of negative switching costs with service quality (Hypothesis H3). Especially, the direct effect of service quality on customer loyalty is not statistically significant in research model which indicate the fully mediated relationship through customer satisfaction and two types of switching costs.

Table 2. Standardized path coefficients. Source: Own research

Relationships	Research model
CS -> CL	0.466 ***
SQ -> CL	-0.034
SQ -> PSC	0.493 ***
SQ -> NSC	0.355 ***
CS -> PSC	0.484 ***
CS -> NSC	0.142
PSC -> CL	0.475 ***
NSC -> CL	0.129 ***

Table 3. Bootstrapping results for testing mediation effects. Source: Own research

Hypotheses mediations	Direct effect	Indirect effect	Result
SQ -> NSC/PSC-> CL	-0.034 (ns)	0.859 ***	Fully mediation.
CS -> PSC -> CL	0.466***	0.248 ***	Partial mediation.

*** = p-value < 0.01

5. Conclusion

This study is one of the few which consider the mediating effects of switching costs in the relationships with service quality, customer satisfaction and customer loyalty [4], [5]. Moreover, this study extended the previous finding by differentiating and studying the mediating effects of both positive switching costs and negative switching costs. As the analysis has shown, these two types of switching costs have distinctive mediating effects in this study.

The findings of the current study have some implications for service providers and managers. First,

managers should realize the different impacts of each type of switching cost. The proportion of each type in the total use of switching costs should be carefully considered. Specifically, the use of negative switching cost or procedural cost for increasing customer loyalty should be limited. Actually, this study suggests that managers might want to reduce the administrative steps for customer to end the relationship to enhance their loyalty as the empirical results suggests. Moreover, bank manager should consider to developing and adopting more positive switching costs which related to personal relationship and value-added benefits as discounts or rewards. Personalizing relationship with customers makes them feel that they are respected and at the more equally

position with the banks in the economic exchange between them. It also makes customers think they know more about service providers. Then, trust to service providers can be formed which increase the attitudinal loyalty. In this case, the following up actions from service providers to build specific positive switching costs such as interpersonal relationships or rewarded financial benefits might dramatically increase customer loyalty.

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